

## EUROPEAN PARLIAMENT

# Working Documents

1978 - 1979

8 December 1978

DOCUMENT 489/78

## Report

drawn up on behalf of the Committee on Budgets

on

- I. /the accounts of the European Parliament and the discharge in respect of the 1976 financial year
- II. the discharge to be granted to the Commission on the implementation of the budget of the European Communities for the 1976 financial year and the report of the Audit Board (Doc. 132/78)
- III. the discharge to be granted to the Commission of the European Communities in respect of the implementation of the activities of the fourth European Development Fund for the 1976 financial year (Doc. 435/78)
- IV. the comments accompanying the decisions granting a/discharge on the implementation of the budget of the European Communities for the 1976 financial year (Article 85 of the Financial Regulation of 21 December 1977)
- V. the discharge to be granted to the Commission of the European Communities in respect of the activities of the first, second and third European Development Fund for the 1976 financial year

1. 2. 2  
Rapporteur: Mr M. COINTAT

PE 54.551/fin.





By letters of 7 December 1977 and 16 May 1978 the Commission of the European Communities forwarded to the European Parliament:

- the revenue and expenditure accounts and the balance sheet in respect of the implementation of the budget for the 1976 financial year;
- the report of the Audit Board on the accounts for the 1976 financial year, followed by the replies of the institutions.

On 5 June 1978 the President of the European Parliament referred these documents to the Committee on Budgets as the committee responsible and to the Committee on Development and Cooperation for its opinion.

Mr Cointat was appointed rapporteur on 2 November 1977.

The Control Subcommittee considered the problems of the discharge in respect of 1976 at its meetings of 30 January, 27 February, 21 March, 17 April, 9 June, 19 June and 25 September 1978.

The Committee on Budgets considered the draft report at its meeting of 22 November 1978 and adopted it unanimously.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Cointat, rapporteur; Lord Bessborough, Lord Bruce of Donington, Mr Früh, Mr Nielsen, Mr Notenboom, Mr Ripamonti, Mr Schreiber, Mr Shaw and Mr Spinelli.

The opinion of the Committee on Development and Cooperation is annexed to this report.

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The various working documents which formed the basis for this report were drawn up by the following members of the Control Subcommittee:

General section:	Mr COINTAT
Revenue:	Mr AIGNER
Administrative	
Expenditure:	Mr HANSEN
Research and	
investment:	Mr DALYELL
Social fund:	Mr NOTENBOOM
Regional fund	
and EAGGF -	
guidance section:	Mr COINTAT
EAGGF -	
guarantee section:	Mr SHAW
Development and	
cooperation policy:	Mr BANGEMANN

The Committee on Budgets hereby submits to the European Parliament the following proposed decision:

PROPOSED DECISION

on the accounts of the European Parliament and the discharge in respect to the 1976 financial year

The European Parliament

- having regard to the interim report of the Committee on Budgets (Doc. 94/77),
  - having regard to its resolution of 9 May 1977,<sup>1</sup>
  - having regard to the revenue and expenditure accounts and the statements of assets and liabilities of the Communities for the accountancy procedures in respect of the 1976 budget and to the report of the Audit Board for the accounts for the 1976 financial year (Doc. 132/78),
  - having regard to the report of the Committee on Budgets (Doc. 489/78)
1. Fixes the budget of the European Parliament as at 31 December 1976 at a final figure of 45,805,859.54 u.a. including expenditure commitments incurred during that financial year of 42,049,987.88 u.a. actually spent and 3,755,871.66 u.a. still to be paid out at the end of that financial year;
  2. Calls on its administration and the other institutions of the Community to take appropriate action on the comments of the Audit Board as regards operating expenditure;
  3. Requests the responsible bodies, and in particular the financial controller, to ensure that the provisions of the Financial Regulation and the Staff Regulations are fully applied;
  4. Points to the more detailed scrutiny made by it, on the initiative of its Committee on Budgets, to reduce the estimates so that they correspond more accurately to realistic expenditure requirements;
  5. Instructs its administration to seek ways of reducing administrative expenditure, especially that arising from the upkeep of premises and from recruitment, by means of cooperation with the other institutions and by rationalisation;
  6. Grants a discharge to its President and Secretary-General pursuant to Rule 50a (3) of its Rules of Procedure.

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<sup>1</sup> OJ No. C 133 of 6.6.77

## II

The Committee on Budgets hereby submits to the European Parliament the following proposed decision:

### PROPOSED DECISION

on the discharge to be granted to the Commission in respect of the implementation of the budget of the European Communities for the 1976 financial year

The European Parliament,

- having regard to the Treaty establishing the ECSC and in particular Article 78(8) thereof,
- having regard to the Treaty establishing the EEC and in particular the third paragraph of Article 206 thereof,
- having regard to the Treaty establishing the EAEC and in particular the third paragraph of Article 180 thereof,
- having regard to the revenue and expenditure accounts and the financial statements for the accountancy procedures in respect of the budget for the 1976 financial year,
- having regard to the report of the Audit Board on the accounts for the 1976 financial year and the answers of the Institutions to the report (Doc. 132/78),
- having regard to the Council recommendation on the granting of a discharge to the Commission in respect of the implementation of the budget for the 1976 financial year (Doc. 317/78),
- having regard to the report of the Committee on Budgets (Doc. 489/78),

1. Notes that

- |   |                    |
|---|--------------------|
| (a) Estimates of revenue for the 1976 financial year totalled     | 8,509,738,961 u.a. |
| (b) Estimates of expenditure for the 1976 financial year totalled | 8,470,609,608 u.a. |

2. Notes that

- |  |                       |
|--|-----------------------|
| (a) Expenditure to be met from revenue for the financial year totalled       | 7,952,574,591 u.a.    |
| (b) Appropriations (commitments) utilized during the financial year totalled | 8,311,464,518.47 u.a. |

3. Grants a discharge to the Commission in respect of the following amount shown in the revenue and expenditure accounts:

(a) Revenue

- Entitlement for the 1976 financial year 7,993,217,897.32 u.a.
  - Entitlement collected at 31 December 1976 7,423,870,669.15 u.a.
- broken down as follows:

1. Amounts collected from the entitlement for the financial year 6,589,035,058.13 u.a.
2. Amounts collected from entitlement carried forward from the preceding financial year 834,835,611.02 u.a.

- (b) Expenditure (payments shown in the accounts for the financial year) 6,257,193,266.96 u.a.

4. Points out that the surplus of revenue<sup>1</sup> over expenditure for the financial year<sup>2</sup>, totalling 40,542,573.12 u.a. is being carried forward to the following financial year;
5. Draws attention to its resolution embodying the comments accompanying the decision granting a discharge and requests the Institutions to report on the measures taken following those comments in accordance with Article 85 of the Financial Regulation;
6. Instructs its President to communicate this decision and the attached comments to the Commission of the European Communities, to forward them to the other Institutions and to arrange for their publication in the Official Journal (L series).

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<sup>1</sup>See 3 (a) first indent: 7,993,217,897.32 u.a.

<sup>2</sup>See 2 (a) : 7,952,574,591 u.a.

The Committee on Budgets hereby submits to the European Parliament the following proposed decision:

PROPOSED DECISION

on the discharge to be granted to the Commission of the European Communities in respect of the implementation of the activities of the fourth European Development Fund for the 1976 financial year

- The European Parliament,

- having regard to the Treaty establishing the European Economic Community and in particular the third paragraph of Article 206 thereof,
- having regard to the ACP-EEC Convention of Lomé,
- having regard to the internal agreement on the financing and administration of Community aid<sup>1</sup>,
- having regard to the revenue and expenditure account, the balance sheet and the report on the activities of the fourth European Development Fund<sup>2</sup> adopted on 31 December 1976,
- having regard to the report of the Audit Board on the accounts for the 1976 financial year and the answers of the Institutions to the report,
- having regard to the Council recommendation, (Doc. 435/78),
- having regard to the report of the Committee on Budgets (Doc. 489/78)

1. Grants a discharge to the Commission in respect of the following amounts shown in the revenue and expenditure accounts for the 1976 financial year:

- revenue: amounting to 134,598,787.45 EUA
- expenditure (payments): amounting to 97,470,907.85 EUA

2. Draws attention to its resolution embodying the comments accompanying the decision granting a discharge and requests the Commission to report on the measures taken following those comments in accordance with Article 67(2) of the Financial Regulation applicable to the fourth EDF<sup>3</sup>;

<sup>1</sup> OJ No. L 25/76

<sup>2</sup> OJ No. L 254/77

<sup>3</sup> OJ No. L 229/76, p.9

3. Instructs its president to communicate this decision and the attached comments to the Commission of the European Communities, to forward them to the other Institutions and to arrange for their publication in the Official Journal (L series).

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the comments accompanying the decisions granting a discharge on the implementation of the budget of the European Communities for the 1976 financial year

The European Parliament,

1. Draws the attention of all the Institutions to the irregularities and aberrations noted by the Audit Board, and invites them to take all measures necessary for their eradication.
2. Instructs its Control Subcommittee to give the closest possible attention to action taken on the comments accompanying the decisions granting a discharge in respect of the 1975 financial year, and to report on the matter to the Committee on Budgets;

Implementation of the budget for the 1976 financial year

3. Notes that the pattern of expenditure in the 1976 budget bears no relation to the major factors influencing economic policy during the period, such as inflation, unemployment and the impact of the drought on harvest yields;
4. Emphasizes that the 1976 financial year was notable for the rapid take-off of the Regional Fund, initial progress on the EAGGF Guidance Section and the Community campaign of solidarity on behalf of the Friuli disaster victims;
5. Regrets the stagnation in food aid and research expenditure during the same period;
6. Deplores the distortions affecting the decisions of the Budgetary Authority, caused by an excessive number of transfers, carryings forward, cancellations and supplementary budgets, particularly since the decisions in question were reached within the framework of the inter-institutional dialogue;

Revenue

7. Requests the Commission to ensure that the Community character of own resources is not called into question by the national procedures employed for the establishment, collection and payment of such resources;



8. Proposes that the Commission should be provided automatically with information on these procedures and their operation in order to facilitate its task;
9. Calls upon the Commission to see to it that the Member States comply strictly with the obligation imposed on them by the Community regulations to provide the Commission with the information it needs for the exercise of its responsibilities, and stresses that it is in the interests of all concerned for the Commission to be able to ensure the effective operation of the system;
10. Is following with great interest the Commission's efforts to coordinate on-the-spot audits in the Member States; asks that its Control Subcommittee should be notified regularly of the results of these audits and their coordination;
11. Considers that the entry into force of financial autonomy will considerably increase the Commission's responsibilities in respect of the implementation of the 'revenue' section of the budget and is in favour of a corresponding increase in the staff responsible for auditing and the management of revenue, without any alteration in the present decentralized structure;
12. Notes that the current presentation of the 'revenue' section of the Budget does not allow the Budgetary Authority and the Discharge Authority to carry out their responsibilities satisfactorily; is, moreover, of the view that the budgetary transparency of the section on revenue is unlikely to be markedly improved except on the basis of thorough reform of the agricultural funds and hence of the entire CAP system;
13. Urges the Commission to take steps in the near future to promote the use of the EUA for the calculation and payment of Community fines;
14. Instructs its Control Subcommittee to make a detailed review of the Community's publications policy, with particular reference to the cost of producing these publications;

#### Operating expenditure

15. Notes that a relatively high proportion of staff are not covered by the Staff Regulations of Officials of the European Communities. Although the recruitment of such staff facilitates a more flexible staff policy, it should be kept to an absolute minimum and discrimination against other persons, who have to go through the competition procedure, should be avoided;

16. Feels that recruitment procedures should be closely coordinated between the institutions and that, for certain grades at least, it should be possible to use joint reserve lists;
17. Calls on the Commission to extend the measures it has introduced to encourage staff mobility to the concept of mobility between institutions; invites the other institutions to take measures to this effect;
18. Considers that clear and precise conditions governing ad personam promotion should be drawn up for application in all the institutions; and will carefully monitor the course of future budgetary procedures, the creation of ad personam posts;

#### Comments with regard to the European Parliament

19. Calls on the administration of the European Parliament to take the appropriate steps to conform with the recommendations in the Audit Board's report on administrative expenditure for 1976;
20. Notes that as regards transfers of sums abroad by officials, the total amount remained relatively insignificant and did not exceed a certain percentage of staff salaries, and that these transfers will, in any case, cease to bring any exchange profits after introduction of the European Unit of Account for administrative expenditure;
21. Instructs its Subcommittee, following receipt of preliminary studies, to formulate recommendations to rationalize acquisitions policy, substituting purchasing for renting where appropriate;

#### Expenditure on research and investment

22. Has noted the efforts of the Commission to enhance the clarity and transparency of the presentation of the research and investment appropriations;

23. Considers that the tendering system should be used as widely as possible and insists that invitations to tender should be issued only after a detailed examination of requirements and after careful planning;
24. Notes that delays in decision-making in the case of JET caused an avoidable loss of several million EUA to the Community and urges simplification of the decision-making procedures to avoid recurrence of such regrettable situations;
25. Believes that careful attention should be paid to the desirability of concentrating Community research efforts on a limited number of lines which dovetail and synchronize with existing programmes, conducted on a national basis and which could be prosecuted vigorously rather than diluting the Community effort by spreading the limited funds available over too wide an area with a watering can effect;
26. Insists that an effective system for the gauging of return on outlay be evolved, in so far as it is realistic to arrive at value judgements about research;
27. Is of the view that a policy of a degree of mobility for researchers should constitute an integral part of the overall Community approach to research;
28. Draws attention to the need for maintaining the appropriate balance between staff costs and expenditure on operational research.

Euratom Supply Agency

29. Notes from the Agency's operating account that the budget, which was largely financed with a Commission subsidy, amounted to 458,879 u.a. and welcomes the fact that no major irregularities were found by the Audit Board;
30. Instructs the Committee on Budgets to continue to study, together with the Commission, the financial management of the Euratom Supply Agency at the time of the audit for the next financial year;

### Social Fund

31. Notes that, once again, payments made in the 1976 financial year on the basis of appropriations for the financial year were insignificant (1.81%); that the total of cancelled appropriations from the 1974 and 1975 financial years amounted to 90 m EUA and that this figure rose still higher, to 227 m EUA, in the 1977 financial year;
32. Endorses the Control Subcommittee's view that the Commission's internal implementing procedures and administrative practices should be revised so as to reduce the delays observed in the making of payments;
33. Refers in this connection to the discussions held within the framework of the budgetary procedure for the 1979 financial year, and to the efforts to find new procedures such as will improve the flow of appropriations and to develop new ideas on cooperation with the Member States;
34. Invites the Commission to submit proposals to this end;
35. Instructs its Control Subcommittee to give close attention, particularly during the discharge procedure for the 1977 financial year, to such of these problems as remain unresolved;

### European Regional Development Fund

36. Notes that the rate of utilization of commitment and payment appropriations has been satisfactory but nevertheless invites the Commission to urge the Member States to accelerate implementation of the operations for which they are responsible;
37. Requests the Commission to see to it that more uniform use is made of the appropriations within the quotas allocated to each Member State;
38. Notes that no major irregularity was reported during the financial year;
39. Nevertheless calls upon the Commission to examine with all due stringency all applications for assistance so as to ensure the effectiveness of financing in terms of the objectives pursued, and also to avoid harming the prestige of the Community's activities;

EAGGF - Guarantee

40. Considers that it is appropriate to look at the guarantee and guidance aspects of the EAGGF jointly when examining the impact of money spent in the context of the common agricultural policy;
41. Reiterates its view that greater emphasis should be laid on guidance outlay if the continued emergence of persistent surpluses with resultant intervention costs is to be minimized;
42. Believes that there is a danger that aid to agriculture by the Member States could run counter to the objectives of the common agricultural policy by having protective effects and that such aid needs to be examined carefully;
43. Urges that the closing of EAGGF accounts for earlier financial years be expedited and recalls that it made available 37 extra posts in the 1978 budget to help the Commission carry out its responsibility in this area;
44. Appreciates that it is difficult to measure precisely the economic effects of the agri-monetary system but urges the Commission to pursue its efforts at quantification in this area;
45. Asks that every effort be made to measure costs, draft possible alternatives, and generally open up the possibility for the making of political choices in the sphere of agriculture;
46. Expresses its surprise at the relatively few cases of irregularities reported by several Member States under Regulation 283/72, particularly in the beef and dairy products sectors;
47. Deplores the fact that the Commission should find itself obliged to point out that (a) it is sometimes necessary to remind Member States of the deadlines for reporting irregularities and (b) the data received tends to omit details;
48. Fears that the complexity of Community regulations may be rendering the detection of irregularities more difficult and therefore calls for a simplification of these regulations;

49. Is concerned at the slow rate of recovery of the amounts involved in those irregularities which come to light and recommends a speeding up of recovery procedures;
50. Considers the work of the Special Audit Mission to be particularly positive and useful and recommends that it be extended and intensified;
51. Notes that, in its final report, the Audit Board ' was unable to conclude that financial management in the sectors investigated has been sound in the sense of achieving the desired objectives at the lowest possible cost or even, in certain cases, of achieving them at all' and sees in this a measure of the size of the task confronting the new Court of Auditors in its work in relation to the EAGGF;
52. Reiterates its demand that a fuller breakdown of intervention costs should be provided in future budgets and that the Commission should provide, by the end of this year, a report on the working of the intervention system;
53. Believes that longer-term projections of Community production capacity and demand for agricultural products are an essential adjunct to management control of the EAGGF, from the effectiveness viewpoint, and asks the Commission to put the preparation of such projections in hand;
54. Calls for wider use of the tendering system to enable the EAGGF to operate as efficiently as possible;
55. Suggests that the Court of Auditors should comment in detail, in its annual report, on the operation of the intervention agencies;

#### EAGGF - Guidance

56. Emphasizes that the farm structures guidance policy can make a decisive contribution to the reduction of social and economic imbalances within the Community;
57. Asks, therefore, for the appropriations in respect of the activities of the Fund to be fixed commensurately with real needs, within the framework of the budgetary procedures;

58. Considers, nevertheless, that to ensure that the funds are actually used and are channelled towards the least developed regions, a simpler financing system should be established and the Member States should be encouraged to adopt less complicated bureaucratic procedures;
59. Asks once again for an effective link to be established between the instruments (particularly the Social Fund and the Regional Fund) which are capable of providing a practical response to problems of economic development;
60. Invites the Commission to take especial care to ensure that projects financed with the participation of the EAGGF contain features of a kind that enable the Community aspects of the Fund to be appreciated;
61. Urges all the relevant Institutions to intensify their control operations to ensure that the principles and aims described above are truly reflected in the management of the Fund;

#### Development Aid

62. Recommends that the development aid appropriations should be presented more consistently, that responsibilities should be divided between the Council, Parliament and the Commission as uniformly as possible for Title IX as a whole and that methods of management and control be harmonized;
63. Draws attention to the shortcomings and delays in the budgetary management of food aid and reiterates its concern that the budgetary and legal relationship between food aid and the EAGGF Guarantee Fund could make food aid policy dependent on the vicissitudes of the common agricultural policy;
64. Expresses its surprise at the Commission's reluctance to utilize the appropriations provided for aid to the non-associated developing countries without the Council's formal approval;

#### Development Fund

65. Notes the practical difficulties arising from the introduction of the EUA in the EDF; will do its utmost to find a solution to these difficulties; considers, nevertheless, that they are not such as to cast doubt on the principle of the use of the EUA as an accounting

instrument, an instrument for the execution of projects and a unit of currency;

66. Will reinforce its control over the EDF appropriations for whose utilization the EIB is responsible;
67. Attaches particular importance to the introduction of mechanisms allowing for greater parliamentary control over the appropriations earmarked for aid to the ACP in the context of an EDF which is incorporated in the budget;
68. Will pursue its investigation, in collaboration with the relevant departments and the Court of Auditors, into the working of the delegations in the ACP States and the effectiveness of the STABEX mechanisms.



The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the granting of a discharge to the Commission of the European Communities in respect of the activities of the first, second and third European Development Funds for the 1976 financial year

The European Parliament,

- having regard to the report of the Audit Board on the accounts for the 1976 financial year and the answers of the Institutions to the report (Doc. 132/78),
  - having regard to the report of the Committee on Budgets and the opinion of the Committee on Development and Cooperation (Doc. 489/78),
1. Invites the Council to grant a discharge to the Commission in respect of the financial management of the first, second and third EDFs during the 1976 financial year;
  2. Recommends that the Council ensure that the ceiling arrangements for the second and third EDFs be supplemented by the following measures:
    - suspension of decisions to commit the outstanding balance of the second EDF,
    - transfer of the outstanding balance to the third EDF.

EXPLANATORY STATEMENTPART ONE: GENERAL

1. With direct elections to the European Parliament on the horizon, the discharge for the 1976 financial year provides an opportunity for noting that the scope of Parliament's budgetary control powers is now generally recognized and that by setting up a budgetary control sub-committee<sup>1</sup> it has provided the directly elected Parliament with an instrument capable of making an effective contribution to work in this area.

I. Principles and structure of Parliament's budgetary control

2. Parliament has been prompted to take resolute action for the following two reasons:

- (a) the effectiveness of its budgetary powers depends directly on the control it has over the implementation of its decisions. On the other hand, decisions whose implementation is uncontrolled could well prove to be of little value and on the other Parliament cannot take informed budgetary decisions unless it has acquired sufficient experience through its control activities.
- (b) Parliament has concentrated its control functions primarily in the budgetary sector because it is there that its powers are greatest.

3. After two years' experience of the functioning of the subcommittee, the following observations may be of benefit to the directly elected Parliament:

- (a) Parliament's political control is the necessary extension of its internal and external technical control functions. Close collaboration with the financial control body, other internal controls and the Court of Auditors is essential. The subcommittee provides a fit setting for these contacts because it is permanent and specialized.

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<sup>1</sup>See resolution of 16 June 1976 - OJ No. C 159/76, p.16  
Report by Mr Cointat

- (b) Parliamentary control is politically effective only if it is timely. Recurrent work (discharge, quarterly reports and financial reports) must be carried out promptly. This political aspect is conditioned by Parliament's ability to take practical action on the individual matters considered by it.
- (c) The area to be controlled is immense. Specialization by members of the subcommittee is not only very useful, it also ensures closer collaboration with the Commission and the Court of Auditors.
- (d) Although essentially political, Parliament's budgetary control must not be isolated from problems of substance: there must be some contact between budgetary control and the parliamentary committees responsible for those problems.
- (e) The *raison d'être* of budgetary control lies in the preparation and following up of budgetary decisions. A special link with the Committee on Budgets is therefore essential.
- (f) From the political angle, budgetary control is a highly worthwhile activity, but it demands much time and effort on the part of the Members involved. Only a relatively small number of Members can be subjected to such working conditions but the political groups and different nationalities must nevertheless be fairly represented.
- (g) Parliamentary control requires meticulous administrative and technical preparation. Consideration could be given to allocating duties in the secretariat according to the areas to be controlled, although the organic link with the Committee on Budgets must be maintained.

## II. Special features of the discharge procedure for the 1976 financial year

4. The 1976 discharge procedure marks the end of the transitional arrangements for external Community control. With the entry into force of the Treaty of 22 July 1975, Parliament alone now grants the discharge to the Commission on a simple recommendation from the Council.

The report on the accounts for the 1976 financial year was also the last to be drawn up by the Audit Board.

5. It seems appropriate here to pay tribute to the Audit Board which, after 20 years of good and faithful service, has been superseded by the Court of Auditors. Through its extremely competent work the Audit Board has brought home to the Community the fact that public funds must be administered in accordance with precise criteria of regularity and sound management.

6. The creation of the Court of Auditors in no way signifies a departure from the principles followed by the Audit Board but reflects the fact that Community funds are now more highly integrated. The Community's financial requirements are no longer met through a series of funds and accounts managed on behalf of the Member States which financed them through national contributions. The Community now has a genuine budget financed by own resources. As implementation of the budget affects the Member States, it goes without saying that the powers of the Court of Auditors had to be extended to cover them too.

7. The transition from Audit Board to Court of Auditors gave rise to some unfortunate incidents that had repercussions and became magnified in the process.

Although the previous two rapporteurs, Mr Bangemann and Mr Aigner, created a situation in which a discharge decision could be taken as promptly as possible, the Council's slowness in formulating its recommendations has forced Parliament to postpone its decision. It is to be hoped that everything will be done to ensure that the discharge for the 1977 financial year is granted within the time limits laid down.

### III. Significance of the discharge procedure

8. It has not been possible to clear up the misunderstanding as regards the forwarding and publication of the Institutions' replies mentioned in the report on the 1975 discharge<sup>1</sup> in time for the 1976 discharge procedure. Although the provisions of the Financial Regulation are clear and stipulate that the Institutions' replies should be attached to the report, the Audit Board has created confusion by asking for the replies as part of an exhaustive consultation procedure prior to finalizing the report. As a result, the written replies, prepared during working meetings, are not attached to the report as the Institutions feel they have nothing to add once the report has been submitted. It is essential for all the Institutions to have the same attitude towards these replies.

9. On the other hand, the problem of the significance of the discharge decision has now been cleared up. It was noted last year that the discharge, which is by nature a budgetary act, was assuming an increasingly political character: it is a reflection of the Commission's fundamental responsibility to the budgetary authority for the implementation of the budget for a given financial year.

But it is undeniable that the discharge decision also has legal implications.

10. First of all, the legal implications are positive: the comments included in the discharge decision are binding on the financial controller and each Institution is required to take all the measures needed to implement them. The legal aspects are of course effective only if they are controlled and it is therefore essential that the provisions of the third and fourth paragraphs of Article 85 of the Financial Regulation should be rigorously complied with:

'The Institutions shall take all appropriate steps to take action on the comments appearing in the decision giving discharge. At the request of the European Parliament or the Council, the Institutions shall report on the measures taken in the light of these comments and, in particular, on the instructions given to those of their departments which are responsible for the implementation of the budget. Such reports shall also be forwarded to the Court of Auditors.'

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<sup>1</sup> Aigner report, Doc. 165/77, paragraphs 8 to 11 of the explanatory statement

Subject to the second sentence of the third paragraph, the Institutions must give an account, in an annex to the revenue and expenditure account for the next financial year, of the measures taken in the light of the comments appearing in the decisions giving discharge.'

11. The legal effects of the discharge may also result from a negative decision: a refusal to grant a discharge for a specific reason involving a specific amount entered in the accounts forces the Commission or the Institution concerned to take the steps needed to rectify the accounts<sup>1</sup>. As Mr Tugendhat said last year, an outright refusal to grant a discharge, implying an unfavourable political assessment of the Commission's action, is highly unlikely because it presupposes an insurmountable difference of opinion.

#### IV. Budgetary management in the 1976 financial year

12. Following the introduction of the new budgetary decision-making mechanisms in 1975, the 1976 financial year provided an opportunity for establishing the inter-institutional dialogue. Parliament had sought this form of relations between the institutions involved in the preparation of the budget to enable joint decisions to be taken in the budgetary sector. For the 1976 financial year, however, Parliament found that stagnation and austerity were the keynote of the Council's approach to the budget<sup>2</sup> which reflected a regrettably strained attitude and a reluctance to face the Community's economic difficulties.

##### A. Increase in expenditure over the preceding financial year

13. The analysis of financial management submitted by the Commission provides very little information to explain the increase in expenditure. There is no indication for instance of how the economic situation or, in the agricultural sector, the long drought affected the increase in its appropriations.

<sup>1</sup>

This situation is similar to the practice in some Member States; for instance : regulation on the settlement of accounts for the 1975 financial year in France; deficit of the Caisse centrale de crédit coopératif, Papon amendment

<sup>2</sup>

Reports on the 1976 draft budget - Doc. 441/75, paragraph 7 of the resolution and Doc. 361/75, paragraph 19 - rapporteur:  
Mr COINTAT

14. The 33% increase in Community expenditure over the preceding year should be set against the following figures :

- the rate of inflation throughout the Community was 11.3% for the same period
- Member States' budgets in 1976 showed a 15.1% increase over 1975
- the share of the Community GDP accounted for by the Community budget increased from 0.55% in 1975 to 0.62% in 1976
- the ratio of the Community budget to the national budgets increased from 1.8% to 2.1%

In view of the negligible size of the Community budget compared with the overall economic data, the 33% increase, viewed in the light of the above figures, appears inadequate if it is held that Community expenditure should have an impact on economic structures.

15. The overall increase of 33% is due to :

- the speed with which the Regional Fund was brought into action
- the special measures to assist Friuli
- the marked progress made in the EAGGF, Guidance section

The increase in agricultural guarantee expenditure levelled off, which was only to be expected after the sharp increase in 1975, while Social Fund expenditure remained unchanged; this is regrettable in a period when the unemployment rate rose to 5%. The following sectors showed the lowest growth rates; reflecting a real failure to make adequate budgetary provision:

- cooperation and development, in particular food aid (3.3% increase over the preceding year - erratic movements of appropriations - high rate of cancellation - low payments);
- research and investment expenditure: the unsatisfactory implementation of the budget - low increase in expenditure compared with the preceding year, high cancellations, very low rate of committing and paying appropriations - is largely due to belated Council decisions on the 'Fusion' programme and failure to reach a decision on the JET project.

<u>Trend in expenditure</u>					
				m u.a.	
	1976 appropriations committed	1976 share in the budget	1975 appropriations committed	1975 share in the budget	% difference 1976-1975
Expenditure on staff	213.1	2.661 %	187.9	3.102 %	13.4%
Operating costs other than flat-rate repayments	78.4	0.980 %	68.7	1.104 %	14.1%
	523.7	6.552 %	374.1	6.202 %	39.8%
Specific tasks other than research and investment	44.9	0.561 %	27.3	0.405 %	64.4%
	112.3	1.405 %	97.4	1.602 %	15.2%
Aids and subsidies	36.8	0.460 %	17.0	0.208 %	19.8%
Social Fund	439.4	5.497 %	353.9	5.800 %	22.6%
ERDF	300.0	3.753 %	150.0	2.496 %	100.0%
Friuli	60.0	0.750 %	-	-	-
EAGGF Guarantee section	5,626.2	70.390 %	4,336.3	72,105 %	29.7%
EAGGF Guidance section	302.8	3.788 %	149.0	2.407 %	100.0%
Food aid and cooperation with developing countries	255.2	3.192 %	246.9	4.100 %	3.3%
<b>TOTAL</b>	<b>7,992.8</b>	<b>100 %</b>	<b>6,008.3</b>	<b>100 %</b>	<b>33 %</b>

#### B. Trend in and use of initial appropriations

16. Parliament deplored the fact that the draft budget submitted by the Council was not a forward-looking political document but a mere accounting statement of the financial implications of measures in force.

Implementation of the budget has confirmed this analysis and the results show that the original budget contained a very poor estimate of actual expenditure. The initial budget has been amended as follows:



Supplementary budgets :	893.75 m u.a.
transfers from chapter to chapter :	543.64 m u.a.
carry-forwards 1975 - 1976 :	2,116.46 m u.a.
carry-forwards cancelled :	291.62 m u.a.
appropriations carried forward :	1,977 m u.a.
appropriations to be cancelled :	208.20 m u.a.

These changes affect well over half of the initial budget.

#### Supplementary and rectifying budgets

17. Supplementary budget No. 1, on aid to the Friuli disaster victims perfectly illustrates Parliament's point of view : only the urgency and unforeseeable nature of such a catastrophe justifies this procedure. Parliament showed on this occasion that it was capable of acting quickly when required to do so. On the other hand it has kept a very careful check on the use of these appropriations : a parliamentary delegation made an on-the-spot visit and the subcommittee which has regularly included this item on its agenda is continuing to keep a check on the appropriations.

18. Supplementary budget No 2 exemplifies the inaccuracy of budgetary estimates for agriculture. The use of the appropriations entered in this supplementary budget on 16 September 1976 also shows that the Commission has no more than a vague idea of the management of this part of the budget :

#### Trend in and use of EAGGF Guarantee Section appropriations

Initial appropriations	5,160.3	<u>m u.a.</u>
Transfers to food aid -	42.4	
Supplementary budget +	717.3	
Non-automatic carry-forward-	92.3	
Cancellations -	116.7	
Appropriations committed =	5,626.2	

#### Transfers

19. Parliament formally disapproved of the 'open' transfer procedure when granting a discharge for the 1975 financial year<sup>1</sup>. We deplore

<sup>1</sup>Doc. 165/77 : Aigner report, paragraph 13 of the comments and paragraph 38 of the explanatory statement.

this procedure which was again used at the end of December 1976 because it overrides Parliament's budgetary prerogatives.

The use of this procedure in 1976 is particularly scandalous for the following reasons :

- consultation of Parliament, which is mandatory in the case of provisional appropriations, took place in circumstances that made it practically impossible for Parliament to deliver an opinion (it was consulted on 22 December)
- some of the sums transferred had been entered by Parliament in amendments
- the transfers were made to cover the lump sum repayment to Member States of the costs incurred in collecting own resources although most of the appropriations were originally intended to cover adjustments to remunerations and their use was subject to a Council decision.

#### Cancellation of appropriations

20. Appropriations cancelled compared with 1975 were as follows:

	1975	1976	<u>(m u.a.)</u>
Cancellation of appropriations for the financial year	17.6	208.2	
Cancellation of appropriations carried forward	30	291.6	

Cancellations of appropriations for the financial year are due to shortcomings in budgetary management especially of the EAGGF, Guarantee section and food aid sectors and, in the case of appropriations carried forward, of the Social Fund.

#### Use of appropriations entered by Parliament in amendments

21. Parliament has attached special importance to controlling the use of these appropriations and has devoted several resolutions and one oral question with debate<sup>1</sup> to the problem in addition to dealing with it in the subcommittee. This action by Parliament has highlighted the problem of the Commission's responsibility for implementing the budget and of coordinating the Council's legislative activities with the budgetary decision-making procedure.

<sup>1</sup>doc.154/76 - Oral Question by Mr Aigner

Although little progress has been made in some sectors such as hydrocarbons, there has been considerable progress as regards the non-associated developing countries.

## PART TWO: REVENUE

1. The Audit Board's latest report indicates an increased effort by the Board to extend and reinforce control over the collection of Community resources. This is to be welcomed since it is in keeping with Parliament's desire to promote greater transparency in the management of this part of the budget.

2. In addition to factors peculiar to the 1976 financial year, pertaining to the overall analysis of budgetary management and the consideration of difficulties which arose in the course of the year, this document also points out the defects inherent in the system and draws the appropriate political conclusions.

### I. Overall analysis of the budgetary management of revenue

#### Budgetary management

3. The estimates of revenue for the 1976 financial year, including supplementary budgets, totalled 8,509,738,961 u.a. The 1976 budget showed an imbalance when it was adopted, since on the basis of Articles 3(3) and 4(1) of the decision of 21 April 1970 and the provisions of the Treaty of Accession concerning the adjustment of the respective shares of the Member States, estimates of revenue exceeded estimates of expenditure by 39,129,353 u.a.

4. In fact the revenue established, calculated on the basis of the expenditure incurred in the course of the financial year<sup>1</sup> and taking account of the adjustment of the shares of the Member States, exceeded costs for the financial year by 40,542,573 u.a. and totalled 7,993,217,896 u.a.<sup>2</sup>. This surplus is to be carried forward to the next financial year.

5. In the 1976 financial year a total of 6,589,035,058 u.a. was collected in revenue and 834,835,611 u.a. in entitlements carried over from the previous year. At the close of the 1976 financial year, the total balance outstanding was 1,614,545,179 u.a., including 1,404,182,839 u.a. for the 1976 entitlements and 210,362,340 u.a. for entitlements carried over from 1975.

#### Nature of the revenue

6. Sixty-five percent of the 1976 budget was financed from own resources. The own resources established totalled 104% of the estimates. The customs duties collected amounted to only 98.7% of the estimates but actual revenue

<sup>1</sup> Article 17 of Regulation No 2/71: '(a) the expenditure incurred during the financial year in question, plus the appropriations carried over to the following financial year, less the appropriations carried over from preceding financial years and written off, and also revenues other than own resources and financial contributions from Member States;'

<sup>2</sup> Including 100,733 u.a. in cancelled entitlements under the heading of miscellaneous revenue.

exceeded the estimates in the case of agricultural levies (128.9%) and sugar levies (119%). The amount collected in own resources for 1976 totalled 4,178,633,103 u.a.

7. At the close of the financial year, a balance of 1,049,590,540 u.a. in entitlements for the financial year still remained to be collected. However, by 25 October 1977, all the own resources established, and even a small additional amount in the case of Ireland and the United Kingdom, had been paid in accordance with Article 31 of the financial regulation in force. Hence no distinction is made between own resources and financial contributions in the Member States' payments, and this confusion has had a detrimental effect on financial autonomy.

8. It should be noted that the system of collecting outstanding amounts no longer applies under the new financial regulation which provides for a cash budget for revenue. Under conditions of complete financial autonomy, the new system has the advantage of enabling the accounts to be definitively closed more quickly. However, Parliament has adopted this system on a temporary basis only and as an emergency measure<sup>1</sup>, since it has serious defects from the point of view of budget transparency, which is already seriously jeopardized in this section of the budget (negative expenditure and similar devices).

9. Financial contributions from the Member States were still necessary in 1976 because of the delay in introducing the Community VAT system. Although the revenue from these contributions is less than the revenue from own resources, they clearly have a decisive impact on the nature of the Community resources system. The contributions cover the difference between own resources and other revenue collected on the one hand and expenditure incurred on the other, and ensure a balance between expenditure and revenue. It is, of course, impossible for the Community to be financially autonomous in these circumstances.

It seems that although the introduction of Community VAT may improve the situation from the point of view of principles, it is unlikely in the early stages to have much effect as regards practical arrangements for collection, payment and control.

10. Miscellaneous revenue is made up of the institutions' own resources. It is for the most part derived from exchange profits obtained when transferring funds from one Member State to another, since movements of funds are based on the market rate whereas they are entered in the accounts on the basis of the IMF rate. Miscellaneous revenue also includes penalties imposed by the Commission, interest paid by financial bodies (which almost doubled between 1975 and 1976), the Community tax and staff contributions to the pension fund, part of the ECSC levy etc.

<sup>1</sup> Parliament declared its support for the conventional imputation system in the report on the financial regulation. The Council has harmonized the financial regulation with the regulation on 'own resources'.

## II. Difficulties experienced in the 1976 financial year

### A. Collection of penalties

11. The subcommittee attaches particular importance to a problem which it has already discussed, namely the collection of penalties. In January 1977 it had to adjourn its work on this subject, since certain points had not yet been resolved by the Court of Justice.

12. At present the subcommittee is able to make the following observations:

- undertakings which are fined by the Commission for violations of Community law sometimes try to evade all or part of the payment of these fines. This casts doubt on the effectiveness of the system for the collection of these fines;
- in the past these undertakings have employed delaying tactics to postpone payment for as long as possible, by making wrongful use of the safeguards accorded by Community law, for example the protection measures adopted by the Court, under which the payment of fines can be suspended. But they have also sometimes benefited from the Commission's failure to take prompt action (the Boehringer case). Finally certain undertakings have exploited the ambiguities of the old unit of account as a pretext for avoiding payment;
- the Community has adequate legal instruments to ensure that fines are collected in a manner that leaves no doubt as to their effectiveness.

13. In giving a discharge on the operations for the financial year during which the Commission has had to deal with these attempts to avoid payment, Parliament feels that it should draw attention to the effectiveness of the Community system of dealing with offenders and express its unconditional political support for the Commission in the exercise of its responsibility for the collection of fines.

14. Parliament has already declared its support for the use of the EUA for legal acts adopted by the Community Institutions<sup>1</sup>. It points out that the use of the EUA in the calculation of fines will prevent abuses and urges the Commission to make every possible effort to promote its use.

### B. Sugar levies

15. Sugar levies are own resources used to finance the reimbursement of storage costs paid by sugar producers. In principle they are calculated on the basis of the estimates of expenditure incurred in the reimbursement

<sup>1</sup> SHAW report: Doc. 569/76

of storage costs and the discrepancy between the estimates and the actual figures is carried over to the following year.

16. In practice, the system of bringing revenue into line with expenditure is totally lacking in transparency.

Table: Statement of revenue and appropriations and their utilization

Revenue from sugar levy	Expenditure for reimbursement of storage costs
Estimate in annual budget : 107,941,000	Estimate in annual budget : 131,600,000
Amendments in supplementary budgets or by transfers : -	Amendments in supplementary budgets or by transfers : + 14,000,000
Total entitlement (financial year + amounts carried over) : 143,919,554	Overall appropriations : 145,600,000
Amount collected : 112,510,822	Payments : 145,153,856

Curiously enough, after being amended by supplementary budgets or transfers, the overall appropriations for the reimbursement of storage costs have been fixed at a level very close to the total entitlement. Should expenditure therefore be brought into line with revenue, rather than vice versa? In the final analysis it is difficult to ascertain in practice whether revenue has been brought into line with expenditure or vice versa, and when and on what basis they have been equalized. Parliament would be better able to grasp the situation if it could check that all the quantities produced during a marketing year correspond to the levies declared. The results of on-the-spot checks could be forwarded to it.

#### C. Fraudulent butter imports and the resulting loss to the Community

17. Since it was set up, the Control Subcommittee has been dealing more or less continuously with problems relating to sales or imports of butter between the Community and the East European countries.

In the 1976 financial year, the Commission had to face the repercussions of the sale of butter to the USSR which caused problems for Parliament at the time of the 1973 discharge.

18. There is in fact strong evidence that this butter, sold at an abnormally low price with the aid of the export refunds granted by the Community, was reimported into the Community via Rotterdam and Como, without the levy being paid.

19. The investigation into this matter has not yet been completed. It is therefore too soon to draw any conclusions as to responsibility. In the context of the discharge for the 1976 financial year, the subcommittee would like, however, to draw attention to certain factors revealed by this affair:

- it is essential to the operation of the own resources system that the Member States should fulfil the obligations arising from Community regulations which enable the Commission to ensure that the system works effectively. In particular the Member States must not and cannot stand in the Commission's way by taking refuge behind the provisions of domestic law;
- an improvement is needed in the customs procedures and documents used for the movement of goods under Community regulations, and in particular for Community transit;
- new regulations must be introduced to ensure the recovery and repayment to the Community of own resources which have not been collected because of fraudulent practices.

### III. The own resources system

20. In its report the Audit Board devotes 14 pages to a discussion of revenue and about ten times as many to expenditure, although the amounts concerned are substantially the same. It would certainly be premature to conclude that the revenue section of the budget entails fewer problems. The subcommittee has in fact had a number of problems to deal with in respect of Community revenue. The best known and most recent cases are: the importation of butter through Como (non-payment of levies), the difficulty of collecting the co-responsibility levy for dairy products, cereal exports from the United Kingdom to Germany (exploitation of different rates for compensatory amounts) etc.

21. In fact the auditing of revenue, both internal and external, is much more difficult than the auditing of expenditure because of certain special characteristics of the Community own resources system.

#### A. Nature of the revenue

22. The Community budget, which was originally a juxtaposition of funds, has not yet been brought completely into line with budgetary orthodoxy as defined by the national parliaments. Thus some categories of revenue, such as the MCA, are shown only as a deduction from expenditure and



are audited as such. They are not therefore mentioned in the revenue section of the Audit Board's report.

23. In the case of certain categories of revenue, involving considerable amounts, such as the revenue derived from exchange differences resulting from movements of funds (204m u.a. in 1976) or the interest paid by financial bodies (9m u.a. in 1976). It is only possible to carry out a very partial audit. In the case of financial contributions paid by the Member States, auditing is confined to their establishment in the budget.

24. Since financial contributions predominate in the budget - in qualitative if quantitative terms<sup>1</sup> - the external auditing of this part of the budget is of secondary importance, at least from the point of view of the budget as a whole. Obviously this situation will change radically when financial autonomy has been established and the VAT system introduced.

25. Parliament considers, however, that Article 4(1), subparagraph 1, of the decision of 21 April 1970, which provides that with effect from 1 January 1975 the Community budget shall be financed from own resources, is still valid even if the rules for the application of the VAT system have not yet been adopted. This means that the 'revenue' section of the budget is the exclusive responsibility of the Budget Authority; Parliament therefore proposes to exercise unrestricted control over revenue.

26. This transfer of responsibilities calls for certain adjustments in the presentation of the budget. The breakdown of revenue between the Member States will now simply be of an indicative nature<sup>2</sup> and the presentation must show all the data needed by the Budget Authority in order to be in full possession of the facts before taking its decision. The manner in which the 1976 budget is presented does not allow Parliament to fulfil its responsibilities in respect of the 'revenue' section of the budget satisfactorily.

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<sup>1</sup> Financial contributions, covering the difference between other revenue and total expenditure, are the general rule in the Community resources system and are one of its essential characteristics.

<sup>2</sup> See 1978 budget.

## B. Responsibility for the control and collection of revenue

27. Relations between the Commission and the national authorities in the Community are complex and the ways in which responsibilities are allocated vary considerably. Generally speaking, as far as own resources are concerned, the rule is that the Member States are responsible for establishment, collection and control<sup>1</sup>. The Commission's task is to ensure the correct application of the Community texts which allocate responsibility to the Member States.

28. It must be clear that this allocation of responsibilities in no way encroaches on the Commission's responsibility for the implementation of the budget. It has at its disposal all the legal instruments needed to ensure that the Member States have fulfilled the obligations imposed on them by the Community regulations and to enable it to enforce compliance with these obligations if necessary. There must be no exceptions to this rule and it was on this basis that the subcommittee and Parliament intervened in the case of the butter imports through Como mentioned above.

29. This system, which is based on the extensive use by the Community of national administrative instruments and reduces the Community's administrative requirements to a minimum, suffers from the same disadvantage as any over-decentralized system: lack of coordination.

30. It is true that the Commission has at its disposal certain legal instruments which in theory enable it to supervise the operation of the system. In particular it needs to be informed of the national regulations and procedures relating to the establishment, collection and control of own resources; and also to be notified of the results of the audits carried out by the Member States, in order to be able to add to them if necessary. Articles 4 and 14 of Regulation No 2/71<sup>2</sup> and Regulation No 165/74 provide the Commission with the means of obtaining this information, subject to the following improvements:

- the Member States should be required to provide the Commission automatically with all the information stipulated in Article 4 of Regulation No 2/71
- national officials should not be allowed to interfere in contacts between the Commission's auditing agents and the debtors.

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<sup>1</sup> The Court of Justice concluded from the fact that the Member States were responsible for the collection and control of revenue that:  
'In the present state of Community law only the Member States and their authorities are empowered to take proceedings before national courts for the purpose of claiming payment of Community revenue constituting own resources.'  
(Case 110/76, OJ No C 142/77, p.4, Pretore of Cento).

<sup>2</sup> Since replaced by Articles 4 and 18 respectively of Regulation No. 2891/77

31. However, in practice it is totally impossible for the Commission to ensure that the national authorities are establishing and collecting own resources in accordance with Community regulations.

32. The Commission also points out in this connection that the national procedures are amended only when it has been established that they are incompatible with Community regulations. Given that the Commission becomes aware of such incompatibility in the course of audits which cover only a minute proportion of the operations as a whole, even if these audits are in carefully selected areas, it is in practice impossible to ensure that own resources are collected in strict accordance with the regulations.

33. As long as the revenue paid by the Member States was calculated on the basis of respective shares, and financial contributions constituted the difference between these shares and own resources, it was less important for the Member States to exercise strict control over the collection of own resources. First, there is a conflict of interests - the sums paid by the Member State under the heading of own resources increase in proportion to the effectiveness of the control that the State itself is required to exercise. Furthermore the Commission's participation in these audits, although of a very minor nature, arouses a certain amount of suspicion. In addition, the lump-sum repayment of 10% of the costs incurred in collecting own resources increases in proportion to the own resources declared.

34. Under a system of complete financial autonomy, on the other hand, it is obviously in the interests of the Member States that strict control should be exercised, at least as far as their fellow Member States are concerned<sup>1</sup>. The Community should therefore be given more responsibility for the control of own resources. However the rapporteur does not consider it advisable to alter the present decentralized structure, since this would necessitate a considerable increase in the Commission's staff.

35. This transfer of responsibility to the Community could be augmented by the following measures :

- payment by the Community of a fixed percentage of the auditing costs (as is done in the case of collection costs)
- establishment of a specialised body of Community auditors who would increase the effectiveness of the system by carrying out more intensive and frequent joint audits
- extensive use of data processing.

36. In general, the national authorities should have a stronger awareness of their role and their Community responsibilities. Certain anomalous

<sup>1</sup> Member States of course still have little interest in strict controls within their own frontiers.

formalities and procedures, such as the practice in certain Member States of showing Community own resources in the national budget, should be eliminated. The special position of own resources in the collection systems of the Member States should be emphasized, in order to avoid giving the impression that own resources are a negligible proportion of the total national resources.

37. Finally, the Member States should be more conscientious in fulfilling their obligation to inform the Commission of how the own resources system is working. The Audit Board's findings, based on the deliberations of the Advisory Committee on the Communities' Own Resources, show how much remains to be done in this field.

#### C. Audits in the Member States

38. These audits enable the Commission to assume its responsibility for ensuring that Community regulations are applied correctly and in a uniform manner in the Member States, in accordance with Article 205 of the EEC Treaty.

39. Since, under Community law, the Member States have extensive responsibilities in respect of the establishment, collection and payment of own resources, it is extremely important that the Commission should be able to obtain full details of any problems encountered in the implementation of the system. It should therefore be free to exercise the prerogatives conferred on it under Article 18 of Regulation No. 2891/77, and be granted full access to the information in the possession of the Member States.

40. The Commission's responsibility for the implementation of the revenue section of the budget means that it must be able to assist the Member States in combating and prosecuting irregularities. It would therefore be useful to reiterate a request made at the time of the 1975 discharge<sup>1</sup> that provision should be made, under the own resources system, for combating irregularities and for the recovery of funds outstanding, similar to that laid down in Regulation No 283/72 in respect of the EAGGF Guarantee Section.

#### D. Coordination of auditing procedures applicable to own resources and the EAGGF Guarantee Section

41. A substantial proportion of own resources derive from measures taken in the context of the common agricultural policy. This revenue thus comes under two headings - agricultural measures and own resources. This also applies to some extent in the case of the common customs tariff.

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<sup>1</sup> AIGNER report - Doc. 165/77 (point 22 of the comments)

The administration and control of budgetary operations in this sector are therefore subject to different rules depending on whether they relate to expenditure (Regulation No 729/70) or revenue (Regulation No 2891/77). Various Commission departments are responsible for the different aspects of these operations : agriculture, budgets, financial control, customs union etc. Obviously this division of responsibilities is not conducive to effective control and transparent management.

42. The rapporteur noted with interest the setting up of a group responsible for coordination between the Directorates-General concerned. He feels that such a group will eliminate the problems arising from the fact that budgetary operations for the same policy are subject to different regulations, depending on whether they relate to revenue or expenditure. It should also help to mitigate the disadvantages of the division of responsibility for internal control between a large number of different departments.

43. The subcommittee naturally has a great interest in the success of this coordination of audits in the Member States. It feels that this measure will improve cooperation between the Commission and the national authorities as far as auditing is concerned. The rapporteur regards on-the-spot audits as an essential part of the system. Without these audits the Commission would not be able to carry out its responsibilities. The subcommittee therefore asks that it should be allowed to assess the effectiveness of these audits, in other words that it should be kept informed of the schedule of audits and their results.

### Conclusion

44. Since complete financial autonomy is to be introduced in the 1979 financial year, the problem of reorganizing responsibilities in the field of revenue has become a major priority.

It would not be advisable at present to alter the extremely decentralized structure on which the own resources system is based. However, given that the responsibilities of the national authorities include the establishment, collection and payment of own resources, the Commission will be unable to exercise its responsibility for the 'revenue' section of the budget - and financial autonomy will be pointless - if it does not make full use of all the instruments provided for under Regulation No 2891/77.

45. This means that not only will its material requirements increase, and in particular that it will need extra staff, but also that the Member States must refrain from creating obstacles to the execution of its task. This task is essential in a system of financial autonomy since it is in

the best interests of both the Community and the Member States that Community resources should be collected in strict accordance with the regulations and in a uniform manner.

46. The responsibility of the Commission for the 'revenue' section of the budget also means that it can provide the Member States with effective assistance in combating irregularities.

- I. Questions put by the draftsman
- II. Answers given by the Commission
  - (a) in writing
  - (b) during Mr Aigner's visit of  
26 May 1978

I. Questions relating to the discharge for 1976 (revenue section)

1. Does the Commission consider that the extent of its responsibilities for the revenue section of the budget will be affected by the introduction of financial autonomy?

Does it consider that, in contrast to the present situation, Member States will then be particularly interested in ensuring that the collection of Community revenue is subject to strict supervision?

Will it not be necessary for the Commission to guarantee, vis-à-vis the Member States and the Community, that each national administration in fact assesses, collects and transfers in its entirety the revenue due to the Community?

2. What staff does the Commission consider necessary to enable it to carry out satisfactorily its responsibilities in this sphere?

3. What staff is at present at the Commission's disposal?

4. How does the Commission allocate duties to its staff with a view to performing the following functions:

- investigating discrepancies in Member States' regulations, procedures and administrative practices affecting the assessment, collection and transfer of the Community's own resources;
- ensuring the proper application of Community regulations;
- recovering the sums due?

5. Can the Commission give any information on the degree of harmonization of national regulations concerning the assessment, collection supervision and transfer of the Community's own resources?

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Fines

- Did the mushroom-canning undertakings pay the fines that were due voluntarily or only after legal proceedings had been taken?
- Why did the Commission waive the recovery of sums outstanding from Boehringer?



II. Answers given by the Commission

- (a) Remarks concerning the working document on the discharge for 1976  
(revenue section) (draftsman : Mr AIGNER) (Doc. PE 53.561)

Pages 4 and 5 - points 15 and 16

B. Sugar levies

Sugar storage and production levies are own resources from the moment of their assessment, and by virtue of this principle they are paid in their entirety to the Commission's account within the time-limits laid down by the regulations - without, however, being used to cover sugar sector estimates.

On the contrary, at the national level and with regard to storage levies, the paying organization makes an adjustment between the reimbursement of storage costs and the sum payable under the levy, month by month and for a particular producer. This procedure therefore has no effect on the total of own resources actually paid over. As regards the observations made by the Audit Board, the Commission replied to these by letter of 27 January 1978 (see Annex), stating that there were no irregularities in the procedure adopted, as the Audit Board had supposed. A joint system for auditing these levies is to be undertaken by the Directorate-General for Agriculture (for the expenditure side) and the Directorate-General for Budgets (for the revenue side) with effect from June of this year in order to verify all the data at the Commission's disposal regarding the EAGGF and own resources, in pursuance of the proposal for a better coordinated programme.

Page 6 - point 19, last indent

As soon as the consequences of any fraudulent practices have been definitively ascertained, the Member State concerned is required to assess without delay the sums due to the Community. Once this has been done, these sums must be transferred within the time-limits laid down.

Consequently, it is questionable whether new regulations would serve any useful purpose. Stricter audits might well be a suitable alternative.

Page 6 - point 20

Co-responsibility levies for dairy products are not own resources: their sole effect is to reduce EAGGF expenditure.

Page 7 - point 23

As regards the auditing of financial contributions paid by the Member States, it must be pointed out that although, owing to their nature, it was only possible to carry out a very partial audit of these resources, the exact sum due from each Member State is carefully checked by the Commission, inter alia when the revenue and expenditure account is set up.

Page 9 - point 32

The spot checks make it possible to establish the degree of compatibility of national procedures, as is evident from the numerous observations made during joint audits, which Member States have had to take into account. It is therefore incorrect to say that it is impossible to ensure that own resources are collected in strict accordance with the regulations.

Page 9 - point 35, first indent

The 10% at present paid to the Member States are intended to cover, according to the interpretation consistently placed on this provision by both Council and Commission, all costs arising from the assessment, transfer and auditing of own resources. This is perfectly fair, particularly in view of the extent of the sums paid to Member States.

Page 13 - Revenue

The last but one of the remarks to be annexed to the decision to grant a discharge, concerning the presentation of the revenue section for 1976, should be formulated more precisely in view of the fact that budgetary transparency as regards revenue is impracticable without profound changes in the common agricultural policy.

FINES:Mushroom-canning undertakings

The undertakings in question paid the fines without recourse to legal proceedings being necessary.

Payment by instalments and the terms thereof were agreed to by the Commission at the written request of the undertakings concerned. The payments were made as follows:

Champfifrance

1.6.76 FF 48,136  
4.8.77 FF 48,136  
27.12.77 FF 48,136  
FF 144,408  
(26,000 u.a.)

Champes Center

4.8.77 FF 22,216  
27.12.77 FF 22,217  
FF 44,433  
(8,000 u.a.)

ANNEX II  
Euroconserve

15.6.76 FF 59,245  
11.5.77 FF 59,245  
27.12.77 FF 59,244  
FF 177,734  
(32,000 u.a.)

Böhringer

On 9 November 1977, the Commission decided not to pursue the matter of recovering the difference between 80,000 u.a. as expressed in DM and the same sum as expressed in Lit. (The firm had paid 100,000 u.a., the first instalment of a fine of 180,000 u.a., in DM and the remaining 80,000 u.a. in Lit.)

This decision was based on the advice of the Commission's legal service, which took the view that the firm had fully discharged its debt since the original notification had specified all the official (IMF) rates of exchange and given details of the Commission's banking accounts in all the Member States.

(b) Answers given by the Commission during Mr AIGNER's visit of 26 May 1978  
(summary)

Mr AIGNER outlined the subjects he wished to raise for discussion: the principle of more effective auditing and the position of the Commission with regard to the butter sales.

Regarding the butter sales, Mr Tugendhat stated that he had not yet received the reply of the Italian Government to the reasoned opinion forwarded by the Commission, but according to certain sources it was on its way. The only difference between the Commission and the Italian Government was of a legal and procedural nature and did not affect the substance of the matter. When these legal difficulties had been resolved, it would be possible to define the spheres of responsibility.

The work of the subcommittee, said Mr TUGENDHAT, was a valuable source of support to the Commission in this matter, which could be regarded as a test of the extent of the Commission's powers of audit in the Member States.

Mr AIGNER considered that the consideration of this case should also reveal the manner in which fraudulent practices could take place and prompt political initiatives aimed at a reform of the regulations.

It was agreed that Mr Tugendhat could make a statement on this subject at the subcommittee's next meeting.

As regards the possibility of making more effective the Commission's auditing of revenue, Mr TUGENDHAT said that the present regulations allowed Member States to retain existing procedures and practices and that it was for the Commission to ensure that these practices and procedures were harmonized with Community regulations. Any strengthening of the Commission's audit which entailed a reconsideration of the rôle of national administrations could only be envisaged in the medium or long term.

Mr AIGNER stressed that it was the Commission's task to ensure that national practices and procedures complied with Community regulations and that these regulations were carried out, and asked the Commission whether it was in a position to obtain a long-term overall view of the situation. Since the Commission's scope for action was limited, should one not consider increasing its resources?

Mr TUGENDHAT said that the limited additional staff envisaged by the Commission for auditing revenue would be working on VAT, due to enter into force on 1 January 1979. Furthermore, it was by no means certain whether this additional staff would be approved by the Council and Parliament.

Mr AIGNER suggested that Mr Tugendhat draw up a plan for making audits more effective. This should cover not only questions of staff but also steps to enhance the contribution of national audits (training of auditors, conferences, etc.).

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The discussion was pursued in the presence of representatives of Directorates-General XIX and XX.

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Outlining the system of the Community's own resources and financial autonomy, Mr STRASSER considered that, by its organization, Community VAT remained very close to the system of Member States' financial contributions: a rate expressed as a proportion of the national rate; a method of calculation based on statistical data; the method of transferring it to the Community, etc. Nevertheless, financial autonomy must be made a political reality.

Financial autonomy had at least produced one change in the audit structure: with the removal of 'dynamic brakes', each Member State obviously had an interest in seeing that its partners collected Community revenue in its entirety, which, of course, strengthened the case for reinforcing the Community audit.

The question of a more effective audit, however, related only to the 'old' own resources, and for the present could only be resolved within the scope of the Commission's limited powers.

Mr AIGNER pointed out that what was called for in his document was not a revolution in the principles of auditing but a more intensive utilization of the Member States' audit facilities.

Mr STRASSER hoped that this result would be achieved in the Como butter sales affair.

Mr AIGNER thought that an increase in the Commission's powers of audit might, in the medium term, result from the political exploitation of a borderline case in which the Commission was at issue with a national administration. Such an initiative he regarded as providing an opportunity for creating the basis for autonomous audits by the Commission.

ANNEX II

Mr SALTER described the organization of on-the-spot audits by the Commission. He said that an annual programme was drawn up on the basis of precise criteria and that requests by the Commission to take part in an audit were welcomed by most Member States.

Mr AIGNER asked the Commission representatives to visualize a situation in which the subcommittee asked to carry out an audit in a specific case.

Mr STRASSER, Mr SALTER and Mr VICARIO were in no doubt about the Commission's positive response to this. Nevertheless, such an audit would presuppose the consent of the national administration concerned: while such consent was probable at the political level, the legal aspects would still have to be clarified.

Mr AIGNER considered that a legal basis could be created by utilizing the powers newly assigned to the Court of Auditors and, by analogy, to Parliament. He asked the Commission to select for the subcommittee a case lending itself to such treatment and holding out good prospects of a subsequent political initiative on the part of Parliament.

Mr STRASSER stated that, to carry out its task of auditing revenue, in particular revenue from VAT, the Commission's immediate needs could be put at 15 additional Category A posts for 1979, to be distributed among the departments concerned. The staff at present engaged in this task numbered some 15 Category A officials seconded to the Directorates-General for Budgets, Financial Control, Agriculture and the Administration of the Customs Union. These officials were often required for other duties.

A note from his department on the state of harmonization of national procedures might prove very useful. This harmonization, he said, was further advanced as regards the assessment of revenue.

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Present at these meetings were:

Mr TUGENDHAT, Member of the Commission

Mr AIGNER, Chairman of the subcommittee and draftsman

Mr STRASSER, Director-General

Mr BISARRE, Mr FRITSCH, Mr de MOOR, Mr SALTER and Mr VICARIO, officials of the Commission

Mr DARRAS, for the subcommittee secretariat

### PART THREE: ADMINISTRATIVE EXPENDITURE

#### INTRODUCTION

1. At several meetings and in intensive discussions with the Commission, the Control Subcommittee has considered in detail the implementation of the administrative expenditure section of the 1976 budget.

The following points should be noted:

2. Administrative expenditure has been increasing constantly since the beginning of the 1970's, as shown by the following table:

<u>Administrative expenditure</u>	(units of account)
1971	103,783,100
1972	142,029,200
1973	187,557,400
1974	267,758,500
1975	316,996,800
1976	353,411,900

It is this steady increase, in particular, amounting to over 200% in six years, which must be justified. Nevertheless, since 1971 administrative expenditure has fallen from one eighteenth to one twenty-fifth of total expenditure.

3. The number of Community employees has increased steadily; according to the Audit Board's report, there were 13,022 officials in 1976.

To these must be added 1,619 local and auxiliary staff. This sector has also increased steadily.

4. One particular cause for concern is the increase in employees for whom no posts are provided in the Budget - auxiliary and local staff, special advisers, experts. Although the institutions have the right to recruit staff on a temporary basis and for specific purposes, they should not do so where statutory duties are involved, nor should they retain these posts for a long period. This recruitment does of course give the Commission or other institutions greater flexibility in their staff policy and it is also satisfactory to learn that such recruitment is always for a limited period and that permanent posts are obtained only by competition: on the other hand, however, this might involve discrimination against all those who hope to enter directly by competition. In this connection, it would be interesting to find out from the Commission how many of the temporary staff employed in 1976 were not incorporated into a permanent establishment plan.

The danger of such temporary posts gradually becoming permanent seems to be particularly great in the case of special advisers. The Commission's laconic reply, that their period of employment is restricted to one year but is 'extendable', is unsatisfactory. There should be a precise definition of the sectors in which such staff can



be recruited and of the conditions governing the extension of the period of employment; alternatively, the possibility of their contracts being renewed should be subject to a time limit, as for experts.

5. The question of recruitment costs and the need to rationalize recruitment procedures as far as possible have become all the more urgent as a result of the constant rise in the number of employees (by more than 1,000 per year). There is an ever-increasing number of cases where the Commission, Council and Parliament are engaged in simultaneous but separate recruitment procedures; this situation should in future be avoided by a determined effort to achieve coordination between the institutions. With recruitment costs running at 500 to 5,500 EUA per head<sup>1</sup>, a solution to this problem, aimed at the economic use of resources, is more urgently required than ever before. There should also be closer cooperation between the institutions in connection with the drawing up of reserve lists, to ensure as far as possible the exchange of candidates between institutions. The Commission should submit new proposals on this matter.

6. This problem is further reflected in the lack of mobility within the institutions; to avoid stagnation within the individual administrations mobility must be ensured within and between the institutions. During the discussion, the Commission provided interesting information on this matter, showing that staff in the lower career brackets (A6/7 and B4/5) normally change posts within the same Directorate after three years. For staff in the higher career brackets, the situation is reviewed after five years. It would be useful to consider the desirability of such moves between the individual Directorates-General in the interests of intellectual mobility.

Your draftsman would propose that a programme based on the exchange programme with the national administrations should also be introduced within the European institutions.

7. Only slow progress was made with the recruitment of local and contractual staff for the Ispra research centre, decided during the 1976 budgetary procedure. The Audit Board notes that approximately 10% of all staff contracts were opposed by the Financial Controller. The Commission attributed this to the large number of cases involved (over 800) and emphasized its conviction that, since this was an exceptional procedure, the situation would not recur.

8. In its report on promotion the Audit Board mentions the constant increase in ad personam promotions; in 1976 this 'exceptional procedure'

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<sup>1</sup> Depending on type of competition and number of participants



was invoked for more than 100 posts. According to the Commission's information, this kind of promotion is applied only to staff with special qualifications and/or additional duties outside their Directorate or to staff with special duties calling for a certain status.

Moreover, the Commission rightly points out that the ad personam posts are approved by the budget authorities during the annual budgetary procedure. The Committee on Budgets should therefore examine these posts more critically in future.

Parliament clearly applies quite different criteria (special merit or advanced age). As the rapporteur on the 1977 budget, Lord Bruce of Donington, has already pointed out, ad personam promotions are acceptable only on the basis of fixed, uniform criteria. Properly speaking, an ad personam post should be allocated only to a particular person, who has already been carrying out special duties and taking responsibility for a long period. Exceptions (involving status), with which the Commission is apparently faced, should be clearly defined and only in these cases should the post be carried over or publicly advertized. All other ad personam posts should lapse after the departure of the person concerned, if only to avoid creating a new administrative cadre.

9. According to information from the Commission, the conditions governing part-time employment are now better defined. For social reasons, women who have small children are allowed to work part-time for a limited period; at 31 December 1977 there were 88 such women, that is 2.5% of the total female staff.

10. As in previous years, the Audit Board emphasizes the effects of exchange fluctuations on staff expenditure.

It states that this problem persists in the following four sectors in particular, despite the internal rules introduced by the Commission:

- (I) expenditure on entering and on leaving the service and on transfer;
- (II) retirement and survivors' pensions;
- (III) temporary allowances;
- (IV) the transfer of part of the official's salary to countries other than that in which he is employed.

11. The Commission supported the draftsman's view that it is unsound practice to try and compensate the disadvantages suffered by certain persons and caused by the divergent development of various Community

PE 54.551/fin.

currencies, by a quasi legal interpretation of the concept of an 'official exchange rate'. It can only be hoped that the EUA will be introduced into the Staff Regulations of Officials of the European Communities as soon as possible so that these problems can be resolved once and for all.

12. As mentioned in previous Audit Board reports, by far the most important case is the regular transfer of part of the net salary of officials, at a more favourable exchange rate, to the Beamten-Heimstätten-Werk (BHW), a German building society specializing in mortgages for public service officials. The Committee on Budgets does not share the Commission's view that these transfers were all legal under the terms of Article 17(3) of Annex VII to the Staff Regulations, since this paragraph is clearly limited to exceptional cases of an exclusively ad hoc nature.

In this connection it is interesting to learn from the Commission that it intends drafting a more precisely worded supplementary provision.

13. As far as Parliament was concerned, it was stated that in June 1978 Bfrs 2.369 million, from salaries totalling Bfrs 120 million, were transferred at the 'official rate'. The exchange advantages thereby obtained amount on average to Bfrs 6,000 per Bfrs 50,000.

In the case of the Commission, total payments at this preferential rate, including pension transfers at the 'official rate', amounted to approx. Bfrs 239m in 1977.

14. With regard to child allowances, education allowances and orphans' pensions, information from the Commission indicates that the existing difficulties have to a large extent been resolved as a result of a more precise drafting of the relevant provisions during 1977 and 1978.

More serious is the payment of certain allowances for which no legal basis exists, especially payments by the Commission to former officials who, as members of resistance organizations, were deported or arrested by national-socialist or fascist regimes. According to the Commission, its proposal<sup>1</sup> was approved on 19/20 September 1973 by COREPER but, 'for political reasons', not incorporated in the Staff Regulations. The arrangements were instead made 'under the budgetary procedure' (Article 140). The Committee on Budgets shares the Control Subcommittee's view that entering the necessary funds under Article 140 of the budget - 'special assistance grants' - is no substitute for a procedure to amend the Staff Regulations.

#### OTHER ADMINISTRATIVE EXPENDITURE

15. With regard to the construction of a sports centre in Brussels, both in its reply to the Audit Board's comments and during the internal discussions the Commission indicated in detail the difficulties which arose during 1976.

The Audit Board strongly criticized the lack of cooperation between the institutions with regard to expenditure on office cleaning, and the purchase of furniture and other equipment, the Commission countered this by pointing out that as long ago as 1974 a working party on the inter-institutional harmonization of purchasing procedures had been set up and had already achieved considerable success.

16. Finally, the Audit Board refers to the transfer of appropriations within Title 2 from items whose appropriations are never completely exhausted to items which nearly always show a deficit. Despite the Commission's reply, the cost estimates in the budget must be improved. Serious estimates must be produced for items within budget chapters and the replacement of staff by technical equipment, which is often only the result of the rejection by the budget authorities of posts requested by the Commission, should henceforth be given more consideration and planned more effectively.

The Audit Board criticized the tendering and contract procedure for printing the European Parliament's verbatim records of debates and the placing of orders with firms whose tenders departed considerably from the lowest price offer. In this connection, the Parliament Secretariat pointed out that account often had to be taken of factors which necessitated a departure from the normal procedure, in view of the location of the printers' department (close by) and of the special staff needed for the various official languages. It should nevertheless be pointed out that exceptions must be kept to a minimum and be subject to specific conditions.

(A) Social expenditure

I. Programme to combat poverty

This programme was laid down by Council Decision of 22 July 1975, its aim being to carry out pilot studies of the causes of poverty and to develop new methods of combatting it.

In 1975 and 1976 funds totalling 5,375,000 u.a. were earmarked for this programme of which, following a transfer of 250,000 u.a. to the previous Social Fund in 1976, 4,984,382 u.a. were finally made available for the 50% financing of 21 pilot schemes and total financing of two studies.

Payments from these committed appropriations finally amounted to approximately 45%; 10% of the commitments for 1975 had to be cancelled at the end of 1976 since no payments had been effected by then.

Conclusion: The Audit Board noted that there was a considerable delay in effecting expenditure so that in fact the appropriations made available for one financial year cover expenditure in the following year.

The Audit Board criticizes the failure so far to carry out spot checks of the vouchers on the basis of which payments are made.

Such checks on the not inconsiderable sums involved should be made as soon as possible.

II. European Centre for the Development of Vocational Training (Berlin)

This institution was also provided for in the social action programme adopted by the Council of Ministers on 21 January 1974 and was the subject of a Council regulation in February 1975.

In its report on the discharge for the 1975 financial year (Doc. 165/77 - Mr AIGNER), the European Parliament refused to give a discharge because it considered the information on the utilization of the appropriations for the Centre to be inadequate. Since that time a notice to members (PE 51.408) has been distributed within the Committee on Budgets enclosing the report of the Audit Board on the Centre's accounts for the years 1975 and 1976, together with the Centre's reply.

This report, in conjunction with the general observations contained in the Audit Board's overall report on the accounts for the financial year 1976, shows that a lengthy period was required for the setting up of this institution and the organization of its work: 'while the initial appropriations

for these two years amounted to 2,008,000 u.a., the expenditure commitments were limited to 1,227,595 u.a. and the actual payments to 918,394 u.a. Numerous other difficulties connected with the budgetary estimates necessitated a number of internal transfers of funds.

Only 65.3% of the 1976 budget was utilized and only half of the 26 posts on the establishment plan were filled; expenditure for equipment and fitting out the premises accounted, in this financial year, for the bulk of the Centre's costs. Only 62.3% of the commitments for the financial year in fact resulted in payments.

On the assets side of the balance sheet, there is an entry totalling some 650,000 u.a. for cash on hand and bank deposits, of which 254,000 u.a. represents a contribution by the Land Berlin for the fitting out of the premises which it made available to the Centre without charge.

The Centre's reply gives only fragmentary answers to the Audit Board's serious reservations and, in particular, does not clarify an unsatisfactory situation in which the bulk of the budgetary appropriations, of which in any case only half have been taken up, were used for the equipment and fitting out of premises whilst, as at the end of this audit period, the institution had performed no significant productive work.

#### CONCLUSIONS

The draftsman of this working document wonders whether a reservation should not be made once again in granting a discharge to this institution. In particular - and this applies also to the consideration of another decentralized institution (the foundation in Dublin) which follows - the question arises as to the utility of such institutions when a period of two years is needed for preparatory work before they can begin their proper activities. Under these conditions it certainly cannot be maintained that the available appropriations have been used economically.

#### III. European Foundation for the Improvement of Living and Working Conditions (Dublin)

The budgetary practices of the European Foundation in Dublin are if anything even more abnormal given that 1976 was the first financial year for this institution. The slowness in translating ideas and programmes into practical activities is again apparent here in the extraordinarily long period taken up by initial organization: the Council originally provided for the foundation to be established in an action programme on the

environment in November 1973 followed by the social action programme of 1975; but the necessary Council regulation was not enacted until May 1975. The administrative board and the committee of experts did not meet until May and October 1976 respectively. The staff recruited as of November 1976 (4 A posts out of a total of 18 posts on the establishment plan) were not able to occupy the premises until December 1976, and then only provisionally.

Because of these factors the budget of 1.2 million u.a. for this institution also had to be completely rearranged by internal transfers of appropriations and, despite this fundamental revision, it was still only partially implemented (against commitments of 73.8%, payments totalled only 15.2%).

These figures reflect the considerable delay in setting up the foundation.

The Audit Board discovered substantial shortcomings:

- cost statements without the accompanying vouchers required for a proper audit of expenditure;
- travel expenses calculated on the basis of the officials' place of origin instead of the place of work;
- no tender procedure for architectural services used in fitting out the premises;
- no orderly inventory for office furniture, equipment and materials;
- failure to take measures needed to obtain exemption from VAT on purchases;
- failure to eliminate the possibility of double payments of travel expenses and subsistence allowances.

Although the European Foundation has, in its reply, clarified certain points of criticism raised by the Audit Board and given an assurance that many of the shortcomings listed will be corrected at the beginning of 1977, the question arises as to whether - in view of the minimal activity of the institution which, for example, only began fitting out its premises after the signing of the lease on 5 April 1977 - a discharge in respect of the 1976 financial year should not be deferred until the audit report for 1977 is submitted after which these two financial years can be reviewed jointly in the case of the European Centre for the Development of Vocational Training.

(B) Expenditure in the agricultural sector

Expenditure in this area has increased by 185% in the last two years with commitments rising by as much as 210% to more than 5 million u.a. The increase in payments of only 45% reflects some slowness in putting new programmes into operation.

The growth of commitments and payments is due principally to developments in the agricultural research programme providing for the coordination at Community level of certain national research measures and joint projects to intensify and complement the work being carried out in the Member States.

The Audit Board regrets that it is impossible to monitor the progress of research work since only global commitments of appropriations are provided and the projects continue to suffer long delays as in the past. There is even some uncertainty as to the duration of the multiannual research programme.

138 research contracts have been signed in all for which, contrary to the provisions of the Financial Regulation, only global appropriation commitments divided according to sectoral research programmes have been provided instead of individual commitments. There was also insufficient evidence of the regularity of some payments and the necessary spot checks have not yet been undertaken.

(C) Expenditure in the industrial and energy sectors

In the 1976 financial year the funds provided in this sector were allocated exclusively to Community projects for technological development in the hydrocarbons field. In particular, Community aid has been directed to improving technology for the location, extraction, storage and transport of hydrocarbons.

As so often in the implementation of research programmes, there have been difficulties and irregularities such as the signing of contracts after the conclusion of research work, and substantial contract extensions.

Appropriations newly entered in the budget often remain largely unused, while in the case of other projects appropriations could not be used because of the old problem of failure by the Council of Ministers to adopt in time the corresponding proposal for a regulation submitted by the Commission.

### CONCLUSIONS

All these shortcomings and points of criticism prompt the draftsman of this working document to request an explanation from the Commission and to ask it to take practical action and provide evidence of an improvement so that difficulties of this kind can be eliminated once and for all in the research sector.



PART FOUR: RESEARCH AND INVESTMENT

Amounts involved

1. In the 1976 budget, commitment appropriations totalling 299,233,270 units of account were made available; as well, a sum of 12,240,730 units of account remained outstanding from the 1975 financial year and a further amount of 660,996 units of account became available by the release of commitments from previous financial years.
2. During the 1976 financial year, the clearance of commitments by way of payments totalled 121,394,794 units of account which, broadly, represented an increase of one-fifth over the preceding financial year. However, as the following table shows, the total involved represented less than 2% of the budget of the Communities and, clearly, is far from enough to make any significant impact on the overall research needs of Europe.

Percentage of budget devoted to research & investment

1972	:	1.75
1973	:	1.45
1974	:	1.61
1975	:	1.62
1976	:	1.60

Basic control considerations

3. In its examination of the 1975 accounts, the Control Sub-Committee carefully considered the criteria that should apply to the presentation of the section of the budget dealing with research and investment outlay.<sup>1</sup> Four criteria were identified:

- i) Possibility for post factum control;
- ii) Possibility for carrying out effectiveness control;
- iii) Transparency of presentation; and
- iv) Possibility for monitoring.

4. Insofar as post factum control is concerned, Parliament considered it desirable that the budgetary authority should be able to verify that the actual expenditure reflected the budget decisions and that the audit authority should be readily able to confirm that the money spent reflected faithfully the intentions in the budget.

<sup>1</sup>Doc. 165/77, pages 51 - 58

5. As regards effectiveness control, it would appear highly desirable that the internal procedures of the Commission should be such as would make it possible to judge whether the methods applied and the research lines being pursued are likely to lead to fruitful results. It should be possible to apply techniques that would show whether the Community was getting the biggest possible bang for each buck expended. Also, the system of accounting followed, together with the management methods should make it possible (i) to abandon research activities that were clearly headed for a cul-de-sac and (ii) for the research personnel to be switched to other - more promising - activities. The Committee on Budgets has always attached very great importance to these aspects which could be termed the 'shrinkage possibilities'.

6. Insofar as the presentation and layout is concerned, it should be possible for the audit authority - and above all for the budgetary authority - to check through the various lines rapidly. It should be possible for Parliament to amend the draft budget in an expeditious and straightforward manner. However, once again, during the course of the examination of the 1978 draft budget, it became apparent that the presentation is so complicated that even the Commission experts can experience difficulty in unravelling its ramifications.

7. It should also be possible for Parliament - and especially for its Control Sub-Committee - to monitor the pattern and pace of expenditure during the course of the financial year.

#### Recent amendment of the presentation

8. Last year, with a view to making the presentation of the research and investment appropriations more transparent, the Commission put forward a proposal<sup>1</sup> for an amendment of the relative part of the Financial Regulation. This proposal was, in turn, revised by the Committee on Budgets<sup>2</sup>. To add greater clarity to the presentation of the research and investment appropriations, the Rapporteur suggested the following formula for this chapter:

"That special chapter shall contain, in particular,  
appropriations intended to finance:

- direct actions;
- indirect actions; and
- concerted actions.

<sup>1</sup>Doc. 87/77

<sup>2</sup>Doc. 168/77, report by Mr Shaw

Direct actions mean research programmes executed in the four establishments of the Joint Research Centre and financed, in principle, entirely by the Community budget;

Indirect actions mean programmes executed by way of contracts by national organizations and partly financed by the General Budget of the European Communities; and

Concerted actions consist of Community efforts undertaken to coordinate individual national research activities and in respect of which the General Budget of the European Communities bears only expenditures of an administrative nature."

#### Continuing inadequacies

9. Despite the revised presentation, the layout of the research and investment part proved to be less than satisfactory from a transparency viewpoint. A number of difficulties came up during the course of the examination of the 1978 draft budget, particularly when members put down draft amendments. Clearly, a further overhaul of the presentation is required and indeed it was noted in the resolution of Parliament<sup>1</sup>, adopted last December, that the research and investment provisions would need to be gone into again in the future by the Conciliation Committee.

10. Therefore, the Commission really must get down to a comprehensive overhaul of its presentation. Furthermore, it is to be hoped that the Court of Auditors, during the course of their examination of this part of the budget, will have an eye to the possibility of reforming the presentation. Any such comments by the Court in the context of the annual report would be most welcome.

#### The "Watering Can" effect

11. As pointed out at paragraphs 1 and 2 above, the amount of money being made available for research and investment operations is relatively miniscule when regard is had to the tasks involved. It is noted that this amount is spread over a very wide range of headings. Indeed, whilst, on the one hand, it could be argued that this broad spread enables the Community to help coordinate research activities, on the other hand there is a school of thought which suggests that the effectiveness of the outlay is weakened by the use of Community appropriations as though they were

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<sup>1</sup>  
O.J. C6, Vol. 21, 9/1/78, page 19

distributed from a watering can. Here again we have an issue which the Court of Auditors could look at in the future when examining accounts.

#### The decision on JET

12. Rather long delays arose in reaching a decision on the JET project; this revealed very grave shortcomings in Community decision-making procedures. Such shortcomings could have - and, indeed, in the case of JET did have - costly budgetary consequences. The cost arose on several fronts; first of all, there was the maintenance of the JET team during the years 1976 and 1977, including support facilities such as laboratories. This cost has been put at about 3 MEUAs. To this must be added the cost of certain industrial contracts which had to be prolonged and which had an impact of about a further 1 MEUAs. As well, there are certain long term repercussions which are difficult to determine, and which had as their effect a delay in achieving the programme as a whole. In other words, what had been a possible initial advantage has lapsed somewhat. This particular loss, which could indeed be very great, is almost impossible for your draftsman to quantify.

13. It would appear to be a matter for the Control Sub-Committee to pay particular regard to the elimination of avoidable losses of this nature. As has been pointed out by many members of Parliament, by European scientists and by other competent persons, the inordinate delays in taking a decision on the JET could have had the effect of causing Europe to lose its lead in fusion research; furthermore, it may have resulted in the loss by emigration from Europe to non-European countries of highly qualified scientists. Such waste is avoidable and regrettable. While the solution of the basic faults that make for such delays in decision-making cannot be readily found by the Sub-Committee, the control authorities should be keenly aware of the resultant costs and should, by highlighting them, strive to bring about more efficient and more expeditious Community decision-making procedures.

#### Mobility of researchers

14. Considerable importance attaches to there being an appropriate degree of mobility of research staff within the Community as between Community Institutions, universities and other research establishments. Such mobility should help to ensure a degree of creative tension and, even if only a relatively small percentage of researchers and scientists are involved, could yield productive results by way of cross-fertilization of

ideas and a consistent renewal of approaches to the tackling of research problems. It is appreciated that scope for mobility is relatively slight, given the nature of Community Institutions, the age of the scientists and researchers involved and the high degree of specialization. Nevertheless, wherever possible, such mobility should be encouraged.

#### Balance between expenditure on staff and on pure research

15. Once again, the Control Sub-Committee draws attention to the importance of keeping a continuing watch on the need for an appropriate balance as between outlay on staff and outlay on true research.

#### Specific issues

16. In its report on the accounts for the financial year 1976, the Audit Board gave particulars of a number of questions in relation to which it was not satisfied that good financial management was not observed and the provisions of the financial regulation may not have been respected. Following are some of the key issues involved.

#### Ispra 1 reactor

17. The report describes the history of the closing down of the Ispra 1 reactor. The cost of the transfer of the Euraccs converter to the Ispra reactor at the University of Pavia, which had provisionally been fixed at 183,000 u.a. finally proved to be 450,000 u.a., to which must be added 59,505 u.a. for the purchase, in December 1974, of enriched uranium -235 for use in the converter. The report goes on to state that:<sup>1</sup>

"The cost of building the Rabbit device rose to 603,000 u.a., but since the budgetary appropriations were generally speaking inadequate many costs were charged against various research objectives. As regards commitments, an amount not accounted for by a service rendered (31,031 u.a.) was even entered in the appropriation account with a view to offsetting the shortfall in the appropriations for the financial year 1975. In 1976, this operation was regularized out of the proceeds of the sale of 52 fuel elements to the CNEN."

18. The report also points out that the use of the Rabbit device by the Joint Research Centre was not invoiced by Essor. Furthermore,

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<sup>1</sup> Audit Board report on 1976 financial year accounts, paragraph 114, page 141.

the report continues<sup>1</sup>

"A reactor facility known as 'slow Chopper' was transferred to the University of Berlin, where it was to be housed free of charge for a period of 10 years, subject to tacit extension, without a formal contract."

#### Contracts

19. At paragraph 116(d), the Audit Board points out certain difficulties that arose in regard to contracts and concluded that<sup>2</sup>

"In view of the errors in estimating the duration and cost of the work noted in the case of the IRA loop, it would seem regrettable that the Commission saw fit to effect payment by means of a lump sum amounting to 80% of the total value of the contracts.

Purchases of equipment which the suppliers were authorized to make themselves are invoiced to the Commission subject to a surcharge of 22%, which is not justified.

Signing of the contracts, including a down-payment of 10% (totalling 1,311,186 u.a.), took place before the safety studies were completed and before the necessary permits had been obtained from the competent safety organizations. Moreover, construction work has still not been started."

The Audit Board concluded that "as the permits are not expected until the beginning of 1978, the haste with which the Commission, on a proposal from the Essor management committee, signed the two contracts, entails a serious risk of squandering funds.

#### More planning of contracts needed

20. The Control Sub-Committee accepted the wisdom of the Audit Board's conclusion, in the light of the above-mentioned and other issues, that "invitations to tender should only be issued following a more detailed examination of existing requirements, and after more thorough planning."<sup>3</sup>

<sup>1</sup> Paragraph 114 of report, page 141, last indent of 'a)'

<sup>2</sup> Paragraph 116 of report, page 144, 3rd, 4th and 5th indents of 'd)'

<sup>3</sup> Paragraph 119 of report, page 148, last indent of 'c)'

Furthermore, the Control Sub-Committee noted that, at the final sub-paragraph of paragraph 116, the Audit Board sets out a summary of a series of criticisms:-

- the premature conclusion of contracts before the security studies had been completed;
- under-estimation of expenditure;
- commitments not properly accounted for; and
- too frequent recourse to direct purchase.

### Transfers

21. Attention must be drawn also to transfers. The situation has been summed up very succinctly by the Audit Board in the final sub-paragraph of Paragraph 120(f):

"There are still differences between the estimates and expenditure by type, and these regularly give rise to considerable transfers of appropriations. The causes of these chronic discrepancies, which affect the validity of the budget estimates and detract from the clarity of the decisions, must be established."

### Conclusions

22. While this part of the budget constitutes a relatively small share (less than 2%) of the total budget, it deals with a sphere which is of key importance to the future of the EEC. Moreover, if the share of the budget devoted to agriculture (three-quarters of the total) is taken as given, it follows that the part devoted to research and investment constitutes a far more significant part of discretionary expenditure.

## PART FIVE: SOCIAL FUND

### A. INTRODUCTION

#### I. Basis

The Social Fund, set up pursuant to Articles 123 - 128 of the EEC Treaty, has the general aim of improving employment opportunities for workers in the Common Market and contributing thereby to raising the standard of living. This aim is to be achieved by promoting workers' versatility and increasing their geographical and occupational mobility within the Community.

On 1 February 1971 the first Reform of the Social Fund was adopted, and, with a series of Council decisions and regulations dated 20 December 1977, the Social Fund underwent a further review.

The old Social Fund thus expired on 31 December 1976.

Unlike the procedure under the old Fund where grants were paid in a single sum, under the new Fund up to 85% of payments can be made in advance.

#### II. Importance

As a result of the considerable increase in the size of the Fund for the 1978 financial year, coupled with the increase in its tasks due to the poor economic position of the Community, the Fund is acquiring growing importance.

The increase in the Fund's resources has provided one reason for eliminating the procedural difficulties highlighted in the report of the Committee on Budgets on the discharge to the Commission for the 1975 financial year<sup>1</sup>, where particular attention was drawn to the need to rectify the discrepancy between applications and available resources.

#### III. Control aspects

The reform of the Social Fund in December 1977 has meant that in many respects the years 1976 and 1977 represent a transitional stage, in which many of the former shortcomings still persist. However, for that very reason, the regularity and sound management of past operations must be reviewed, while still attempting to draw lessons for the future, when the new regulations are introduced.

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<sup>1</sup> Aigner Report (Doc. 165/77)



To ensure maximum continuity of control, close comparisons should be made with the results of the 1975 control to find out to what extent the problems and questions raised have been solved.

The following series of questions were raised in Parliament's report on the discharge for 1975:

- the delays in the decisions on the financing of projects and the related problem of the use of the appropriations entered in the budget;
- the difficulties in granting part-payments (up to 85%);
- the dilatoriness of Member States in submitting applications;
- the problem of the forms for the submission of applications for payment and the consequent delay in reaching decisions;
- the chronic shortage of staff in the departments responsible;
- the problem of the 'actual costs' system of payments for both the implementation and audit machinery;
- the shortcomings noted at on-the-spot audits;
- finally, the damaging effects that the delays in financing and implementing projects have on the regularity and sound management of Community finances.

The Control Subcommittee will deal individually with this set of questions and the measures taken by the Commission on the basis of the criticisms raised in the report on the 1975 discharge.

#### IV. Criticisms of the Social Fund in 1976

In its answer to a series of questions raised by the draftsman of this working document the Commission confirms that the years 1976 and 1977 must be regarded as a transitional phase. It refers to the experience gained since 1972 with the new European Social Fund and to the new problems that have arisen since 1975 as a result of the economic situation in the Member States. The wider range of problems made it necessary to apply stricter criteria in determining which applications qualified for support and the priority to be accorded to them. In 1976 and 1977 across-the-board reductions even had to be made.

The fact that these two years represent a transitional phase should prompt the Control Subcommittee to consider the problems that arose in 1976 in close connection with the discharge for 1977 and to pursue actively the questions that are as yet unresolved.

Re the individual questions:

- (a) The Audit Board continues to deplore the cumbersome nature of the decision-making procedure, that is to say the delay between the application for aid by a Member State and the Commission decision. This takes about 12 months, the Commission decision as a rule coming about 1½ months after the meeting of the Fund Committee.

The Commission explains this by the volume of applications received in 1976, which made it necessary to carry out across-the-board reductions in the applications. In consequence, initial instalments were granted only for top-priority projects. The bulk of the applications could not be considered until the decision was taken on the second instalment in late 1976. Unfortunately, because of the internal procedures that are required, the Commission takes the view that it is not possible to expedite the decision-making procedure. The detailed reasons for this will need to be gone into more closely in the next discharge report. It should be ascertained whether matters could not be expedited by tightening up the administration, improving the organization and reducing the toing and froing between the Fund Committee, the Member States and the Commission. Thought would need to be given here to the possibility of modifying the decision-making arrangements at the Commission, which usually decides on payment applications only in the middle and at the end of the year.

- (b) In spite of the new system of making advance payments of up to 85%, in the 1976 financial year still only a tiny proportion of the appropriations for the financial year was used (1.81%).

As mentioned in the Audit Board's last report, in 1976 about 500 million u.a. were due to be paid out (taking account of the sums carried over from the previous year), but in fact only about 256 million u.a. were paid out, which nevertheless represents an increase of 100% over the preceding year (127 million u.a.).

The still considerable delays in payments and the explanations given by the Audit Board are in sharp contradiction with the Commission's repeated protestations that the Member States are responsible for the delays in payments. The Audit Board feels that an investigation of the internal settlement procedures and administrative practices of the Commission is necessary.

In its reply the Commission points out that, even after the introduction of the system of advances of up to 85%, little use had been made of this option, as many Member States preferred to delay their applications in order to avoid duplication of effort in furnishing supporting evidence. This meant, for example, that the bulk of

applications for appropriations committed in 1976 were not submitted until the second half of 1977. At the end of July 1978 more than 40% of one Member State's share of the appropriations available from 1976 remained unclaimed.

It should be asked here whether the application procedure is still too cumbersome in view of the fact that the Member States hesitate to use it despite the prospect of advance payments of up to 85%.

- (c) A further reason for the delay in the settlement of payments was the failure of Member States to provide full supporting documents with applications for aid. The Commission attempted to overcome this drawback by drawing up a new form. This attempt was not successful. The Control Subcommittee had already noted these shortcomings in its report on the discharge for the 1975 financial year. The Commission made no mention of the development of a further improved form in 1976 or what success, if any, had been achieved with it.
- (d) Since the introduction of commitment and payment appropriations it has fortunately been possible to solve the problem that arose when extending the duration of projects. The scope that exists for transfers of appropriations and for meeting previous commitments out of the current budget means that changes to, or the complete abandonment of projects are no longer necessary.
- (e) On-the-spot audits:  
In 1976 there were only 53 on-the-spot checks, compared with 82 in 1975. The Audit Board noted with regret a further reduction in staff. According to information supplied by the Commission the staffing position has in the meantime somewhat improved and there are hopes of a further improvement in the immediate future.
- (f) Preparatory studies and pilot schemes:  
Approximately 1 million u.a. was spent in this area in 1976. The Audit Board had already criticized the inadequate publication and dissemination of findings in its 1975 report.  
According to information supplied by the Commission, summary reports on pilot schemes and studies are distributed to the members of the Fund Committee, interested organizations in the Member States and the European Parliament. Full reports are obtainable from the Commission in Brussels and the information offices in the Member States. The Commission also explained that it had in the meantime taken steps to arrange regular seminars on pilot schemes with the aim of disseminating research findings more widely. These seminars are furthermore

intended to help gauge whether such findings are important enough to justify further measures by the Social Fund.

The justification of this expenditure would need to be looked into more closely, as there seem to be grounds for the draftsman's fears that very limited use is actually being made of these research findings. Research projects would not seem to make much sense if the practical implications of their findings need to be reappraised by working parties or seminars.

- (g) The Audit Board, has, on the basis of its own more extensive investigation noted in the on-the-spot checks, serious shortcomings in a project in Ireland. The Commission has not so far taken up a position on this matter.

V. Prospects and lessons to be drawn

Since control should never be carried out for its own sake or focussed entirely on the past but should draw the proper conclusions for the future, it might perhaps be useful to take a look at the year 1977 and at the current 1978 financial year:

With the Council regulations promulgated in December 1977 the Social Fund underwent a further reform, which entailed the following changes:

- the introduction of triennial guidelines for the management of the Fund,
- a procedure providing for advance payments of up to 85% in respect of projects commenced prior to 1978,
- the procedure providing for two advances of 30% in respect of projects commenced after 1 January 1978.

On the basis of Commission decisions in June and July 1978 instructions were issued to tighten up the organization of the Fund, in particular:

- an obligation on the Member States to submit reports on the implementation of measures and their results,
- the requirement to submit payment applications within a given time-limit (18 months) after termination of the measure concerned,
- the requirement on the Member States to use standard forms when making applications,
- the introduction of direct accountability on the part of the Member States when calling on payments.

The specific results obtained as a result of these measures are as follows:

In 1977 payments totalled 316 million u.a., a substantial increase by comparison with 1976 but still far from that necessary to achieve the figure envisaged back in 1976 (see point (b)).

The new rules will, in the Commission's view, help speed up further the flow of payments. The initial effects can, it maintains, already be seen but can only lead to success if the Member States make really effective use of the opportunities available to them.

The Commission believes furthermore that, as a result of the new regulations, decisions and provisions that came into effect in 1978, it is possible to detect a further improvement in the running of the Social Fund. For example, by mid-September 110 million EUA had already been paid out of the appropriations available for 1978, a further 100 million EUA was to be released shortly and a not inconsiderable number of other applications were being processed and could therefore still be paid out this year.

It will continue to be necessary to keep the Commission's new provisions and rules for improving the effectiveness of the Social Fund and the practical effects of these measures under close scrutiny and, where necessary, to revise them.

I. Introduction

1. The European Regional Development Fund was established by Council Regulation No. 724/75 on 18 March 1975 with the aim of correcting the principal regional imbalances.
2. The Fund's endowment, also fixed by regulation, was 1,300 million u.a. for the first three years: 300 million for 1975, and 500 million each for 1976 and 1977.
3. Projects in industrial, handicraft, infrastructure and service activities within aided areas established by Member States, are eligible for financing.
4. The aim of the present memorandum is to provide an introduction to the debate on financing activities by the Fund in the first two years of its operation (1975-1976), by summarizing and examining some of the comments made by the Audit Board in its 'Report on the accounts for the financial year 1976'.

II. Commitments and payments

5. Assistance from the European Regional Development Fund is, as we know, conditional on payment of national aids. In fact, it is only after having effected its own payment of aid that, 'upon presentation of quarterly statements certifying expenditure and the existence of detailed supporting documents', a Member State may apply to the Community for payment of the Fund's contribution. It may be useful to recall here that Article 4(2) of the Regulation establishing the Fund provides that the Fund's contribution may 'either supplement aid granted to the relevant investment by public authorities or remain credited to those authorities and considered as a partial repayment of such aid'.

6. Any appropriations unused at the end of the financial year are carried over to subsequent years.

7. During the first two years of activity, the Fund's commitments and payments were as shown in the following table:

(a) <u>Commitments</u>	<u>1975</u>	<u>1976</u>
Appropriation available	300,000,000	500,000,000
Brought forward from previous year		221,322
	300,000,000	500,221,322
Appropriations committed in the course of the financial year	299,778,678	500,121,928
Carried forward to next year	221,322	99,394

(b) Payments

	<u>1975</u>	<u>1976</u>
Payments on appropriations committed during the year	90,668,049	217,999,779
Payments on appropriations committed during the previous year	---	59,331,951
Payments on appropriations committed during the year to be carried forward to subsequent years	299,778,678 - 90,608,049	500,121,928 - 217,998,779
	209,110,629	282,123,149

8. The following are some comments and critical observations on the above data:

- (a) The progress of commitments appears satisfactory, since both in 1975 and 1976 almost all the appropriation available was committed. The Audit Board points out, however, that some Member States had submitted in 1975 'fully prepared' applications, some of them relating to projects begun or terminated by 1 January of that year. While the desire to avoid under-utilization of Member States' shares is understandable, such a procedure definitely appears to conflict with the provisions both of Article 19 of the Regulation, which states that aid shall be granted only on expenditure incurred or to be incurred 'after the 1st day of January 1975', and of Article 14, whereby the investors concerned shall be informed that 'part of the aid granted to them has been provided by the Community'.

When asked for what reasons Article 19 of the regulation was not interpreted to the letter, the Secretariat of the Regional Fund forwarded to the Secretariat of the Committee on Budgets a note putting the view that the notion of 'expenditure' referred to in this Article relates not to the total expenditure on investment but only to public expenditure. Since such public expenditure is often made some time after an investment takes place, public expenditure incurred after 1 January 1975 does qualify for aid from the Fund even though the investment to which it relates was made before that date.

As regards the question of publicizing aid (Article 14), the Commission representative assured the Control Subcommittee, at its meeting of 9 June 1978, that all those receiving a contribution from the Community were specifically informed of that fact.

- (b) On the other hand, as regards the payments effected during the first two years of the Regional Fund's operation, it should be noted that the payments in 1975 (90,668,049 u.a.) represent barely 30% of the commitment (229,778,678 u.a.) and that those in 1976 (217,998,779 u.a.) are approximately 44% of the commitments undertaken during the year. It follows that in the first two years, out of a total commitment of nearly 800 million u.a., the payments executed (367,999,777 u.a.) were only 46% of the commitments actually entered into.



Year	Commitments	Payments	$\frac{\text{Payments}}{\text{Commitments}} \times 100$
1975	299,778,678	90,668,049 59,331,951 effected in 1976	30.2 19.8
1976	500,121,928	217,999,779	43.5
Total	799,900,606	367,999,779	46.0

The Second Annual Report of the European Regional Development Fund (1976)<sup>1</sup> states that rate of payment 'depends largely on the speed with which Member States pay their regional aids'. The Committee on Budgets in its opinion on this<sup>2</sup> welcomes 'the assurance given by the Commission that payment applications have generally been settled within two weeks of receipt'.

The Audit Board, too, agrees that the rate of payment appears satisfactory and that this seems to be due to the fact that 'fully prepared' applications for payment, referred to in (a) above, were being submitted.

It nevertheless seems essential to point out that the amount of residual liabilities (operations on which the commitment has been undertaken but payment not effected) of over 430 million u.a. in two years, is rather large. It is, in fact, equal to about 54% of the appropriation available and therefore, while the official version offered by the Commission (Second Annual Report, p.38) concerning the rate of submission of applications (some 60% of the applications submitted in 1976 seem to have been received in November and December) can be accepted, it should nevertheless be asked:

- whether the Commission had taken all the appropriate steps to urge Member States to submit projects at a more even rate;
- whether, in the light of past experience, the Commission does not feel that it should indicate in a report the measures it intends to take to speed up the procedures as far as possible.

With this reservation, it is possible to agree with the Commission's statement that 'some delay is ... inevitable between commitment and payment and above all when projects take several years to complete'; consequently this aspect of the management of the Fund in the first two years of its activity can be considered satisfactory.

In this connection the Secretariat of the Regional Fund stresses, in the note mentioned above in paragraph (a), the relationship that exists between commitments and payments, which take several years to settle.

It is nevertheless reassuring to note that the Commission has brought pressure to bear on the governments of the Member



States to spread their requests for payments more evenly over the year and in fact the proportion of requests for payment in November and December 1977 was just over 30% compared with 60% for the corresponding period in 1976.

### III. Investment projects

9. In the two years under review the Commission approved 2,728 applications for assistance. Of these, 947 related to investments in industry and the services; 1,423 (of which 875 from the United Kingdom) to infrastructures; and 358, mostly submitted by Italy, to mountain and hill farming.

10. The number of projects of 10 million u.a. or more rose from 41 in 1975 to 61 in 1976. Those under 10 million u.a. were 1,142 in 1975 and 1,484 in 1976.

11. The average Community contribution was 253,405 u.a. in 1975 and 323,703 u.a. in 1976.

12. It is important to realize that the question of distribution of the financial resources has a significance well beyond mere statistical analysis.

It should be remembered in this connection that:

- (a) For industrial investments, the aid granted must not exceed 20% of the investment cost, compared with the 30% which is granted for projects in the field of infrastructures.

This is one reason why projects in the industrial sector accounted for 45% of investment financing in 1976 but for only 25% of the aid granted;

- (b) Article 5 of the ERDF Regulation provides that the Commission shall examine in particular 'the consistency of the investment with the range of actions undertaken by the relevant Member State in favour of the region concerned' taking special account of (point b) 'the Community's programmes or objectives';

- (c) 'The capital invested per job is generally more for large projects than for small ones, the latter often being strongly labour intensive; there is thus a direct relationship between the size of the project and job creation. It should be noted in this connection that the projects which benefited from the Fund's assistance aimed at creating or maintaining 55,000 jobs in 1976 against 60,000 jobs in 1975: this is less than 1% of the total number of unemployed in the nine Community countries.

13. In this connection the Commission was asked to clarify

- to what extent the projects which it helped to finance comply with the general guidelines of regional policy;
- how far it was possible to select among the applications from the Member States those which conformed most closely to the predetermined aims; and the Commission should state whether too much weight was not given to the desire to avoid the build-up of unspent balances in granting applications indiscriminately.

The Secretariat of the Regional Fund replied to these questions as follows :

- on the first question, it stressed that the new guidelines on the Community's regional policy presented to the Council in June 1977 provided the basis for a comprehensive system of analysis and policy formulation involving the drawing up every two and a half years of a report on the economic and social development of the regions of the Community. However, pending the first report, the Community's regional policy would continue to depend essentially on complementing the policies of the various Member States;
- as to the criteria for selecting applications, it gave assurances that choices were made in consultation with the Member States concerned. Since, moreover, these choices were made having regard to the criteria laid down in Article 5 of the Fund Regulation, the accusation of 'granting applications indiscriminately' was unfounded.

14. The Commission would also do well to act on its own comments on the inter-relation between actions under the regional policy and job-creation, and to inform the Committee on Budgets what instruments it has been able to muster in the past to ensure that applications on projects likely to make an effective contribution to solving the serious employment problem are granted.

#### IV. Distribution and utilization

15. It will be remembered that by the provisions of Article 2 of Regulation No. 724/75 establishing the European Regional Development Fund, the available resources are to be shared by all the Member States according to a distribution scale in which Italy's portion is 40% of the resources, the United Kingdom's 28%, France's 15%, etc.

16. What is of more immediate interest to us here, however, is to examine in greater detail the use made by the countries of their respective shares.

It should perhaps be observed at this point that while some States (the Netherlands, United Kingdom, Italy, France, Ireland) have used the Fund's resources beyond the limit of their allocated share, utilization by others (Belgium and Luxembourg) has been incomplete, if not totally inadequate. For Germany, notably, the utilization rate has been barely 57.8%.

At the meeting of the Control Subcommittee of 9 June 1978, the Commission representative took the view that the lower use of the Fund by the Federal Republic of Germany was attributable to administrative difficulties between the various Länder and the central government. However, the explanatory note forwarded to the Secretariat of the Committee on Budgets adds that part of the outstanding portion of Germany's quota for the period 1975 to 1977 was allocated during 1978.

#### V. Control

17. It is clear, as the Audit Board also states, that where financial aid was granted, as in 1975, for projects already completed before the establishment of the Fund, the question of control, for obvious reasons, tends to lose some of its importance.

18. The Commission, nevertheless, states that '87 inspection visits were made during the year; added to visits undertaken in 1975, the number of on-the-spot checks since the Fund was established has been 131'.

19. In this connection it should be stressed:

- that in its opinion on the annual report of the European Regional Development Fund, the Committee on Budgets stated that it wished to know the number of on-the-spot checks made in the presence of representatives of the Audit Board. From the latter's report, it transpires that on-the-spot checks in which the Audit Board was able to participate during 1976 were 6 in number : In Belgium, France (twice), Italy, Luxembourg and the United Kingdom;
- that, as the Audit Board puts it, there has sometimes been, on the part of the national authorities responsible, a restrictive interpretation of the Audit Board's powers of control;
- that the checks carried out give little evidence to support the statement in paragraph 61 of the Second Annual Report that no irregularity was ascertained. For instance, the Audit Board reports that in two cases it was impossible to ascertain that supporting documents were in the possession of the beneficiary undertakings and that it had not even been possible to find definite proof of payment of national aids.

20. The Committee on Budgets, therefore:

- reaffirming the need to provide all the instruments required to investigate the use made of the grants paid, calls on the Commission to submit a memorandum on the actions effected in the past and on measures which it intends to adopt to ensure the correct application of Article 9 of the ERDF Regulation, which governs controls.

21. In the light of the above comments, your rapporteur proposes that the following points be included in the resolution attached to the remarks on the discharge:

- Firstly, having regard to the rate of take-up of commitments, and the satisfactory pattern of payments, welcomes the progress achieved to date but calls upon the Commission to bring pressure to bear on the Member States to speed up as far as possible the operations for which they are responsible.
- Moreover, in view of the fact that not all the countries have fully used the quota allocated to them, asks the Commission to pursue its efforts to ensure a more uniform utilization of available resources.
- As regards audits, notes with satisfaction that no major irregularities have been observed; nevertheless, with regard to the comments of the Audit Board, calls upon the appropriate departments in the Commission to give the closest possible prior consideration to applications for financing, confident that the Community's auditing and budgetary authorities will continue to exercise the subsequent controls and audits with their customary effectiveness. For on the proper implementation of these operations depends not only the achievement of what is one of the priorities in Community policy, but the very image of the Community itself.
- More generally, points out that it is the regional policy which will be the test of the Community's ability to correct its own socio-economic imbalances, an important precondition if, for example, in the monetary field there are to be any practical, stable and lasting achievements. It therefore calls upon the Commission to make every effort to ensure that the resources of the Regional Fund, through a wise use of the criteria for selecting projects, are directed towards supra-national objectives, which are in the true interests of the Community.

Introduction

1. Expenditure in relation to agriculture accounts for three-quarters of the total Community budget; this part relates to the single Community-wide policy which is actually fully integrated; it is also a domain of Community activity which is widely commented on in the press - and not always in a favourable way. Therefore, this section of the budget warrants the most thorough consideration by the audit authority, and in this document the key auditing issues are explored.

Amount available in 1976 for EAGGF Guarantee

2. The following table<sup>1</sup> sets out the sums available in 1976 for EAGGF Guarantee purposes.

	<u>u.a.</u>
Initial budget	5,160,300,000
Transfer to Chapter 92 <sup>2</sup> (Food aid)	42,400,000
Supplementary and amending budget 22.11.1976	<u>717,370,000</u>
Total:	5,835,270,000

Use of appropriations during 1976

3. The following table<sup>3</sup> sets out the use made of these appropriations:

	<u>u.a.</u>
Commitments entered into	5,626,199,855
Unused appropriations requested to be carried forward	92,355,265
Cancelled appropriations	<u>116,714,880</u>
Total:	5,835,270,000

Positive aspects of EAGGF activity

4. Before going into the details of the 1976 accounts, the Control Sub-Committee considers it appropriate to recall a number of positive aspects of the EAGGF. These were looked at by the Committee on Budgets, in the

<sup>1</sup> Source: Paragraph 2.3.3 of Com (77) 591 final

<sup>2</sup> Transfer from Item 6200 (refunds on milk & milk products) to items 9200 & 9210 (food aid), approved by the Council on 8 April 1976.

<sup>3</sup> Source: Paragraph 65(f) of the Audit Board's report on the accounts for the 1976 financial year.

past, notably in the context of the opinion<sup>1</sup> on the stocktaking of the common agricultural policy<sup>2</sup> and the report on the 1978 draft budget<sup>3</sup>. Although certain persistent surpluses have been generated, the security of Community food supplies has been enhanced, price stability has been improved, the trend of Member State expenditure in relation to agriculture has been moderated and there has been a diminution in certain food imports with a consequential saving to the balance of payments of the Community.

#### Major changes in agriculture

5. The impression given, in some quarters, is that the operation of the common agricultural policy has led to the maintenance of a cossetted agricultural community with a minimum of disturbance of the existing structure. This view is very wide of the mark, indeed.\* As the following table shows, there has been a drastic fall in the number of persons engaged in agriculture, in the Community, during the relatively brief history of the Community.

(in thousands)

Country	1960	1973	Percentage decrease
Germany	2,216	1,101	50.3
France	3,529	1,753	50.3
Italy	4,007	1,830	54.3
Netherlands	364	264	27.5
Belgium	307	128	58.0
Luxembourg	22.4	12.6	43.8
United Kingdom	990	626	36.8
Denmark	318	166	47.8
TOTAL:	11,753.4	5,880.6	49.9

Ireland: No figures available

Source: Yearbook of Agricultural Statistics, 1977.

6. It is clear from the above table that there has been a most dramatic change in the number of people working on the land in all Member States of the Community. The effects of this in social, economic and environmental terms are considerable. Extra land should have become available for farmers wishing to improve their efficiency; an effort should be made to establish whether, in fact, the land that should have been utilised more economically was put to good use.

\* of course, it must be admitted that big farmers in certain lines of production have fared extremely well under the CAP, whilst many smaller farmers have been inadequately helped.

<sup>1</sup> Doc. 115/75/Ann.

<sup>2</sup> Doc. 529/74

<sup>3</sup> Doc. 341/77



7. The major drift out of agriculture has far-reaching implications with social, environmental and economic content. There is the danger of rendering large communities non-viable, of the ageing of the remaining agricultural population, of the running down of infrastructure across broad areas of the Community. In looking at the monies spent out of the Community budget, Parliament should be conscious of these aspects; it is by gauging the impact of money spent already that one discovers the medium term shortcomings - or, indeed, benefits - of policies adopted year by year.

8. However, the data and techniques available to us are, at this stage, relatively inadequate. Nevertheless, certain questions should be posed and specific examinations undertaken. In this domain, the boundaries between the guidance and guarantee sections of agriculture are rather less rigid than is sometimes thought and an improved interlocking of the systems of support and redirection is highly desirable.

9. The difficulties arising in this important area of the budget have been noted for some time by Parliament e.g. in the LABAN<sup>1)</sup> report on the application of the Council directives on agricultural reform of April 1972<sup>2)</sup>. In that report, the problem was set out very clearly. At paragraph 3 of the Explanatory Statement, the following statement is made:

"Considerable discrepancies still exist both in agriculture, between different production sectors and different regions, and between agriculture and other branches of industry.

These discrepancies cannot be smoothed out by the price policy alone as they are mainly related to poor farming structures, low productivity and unfavourable natural production conditions in economically backward areas.

Although the common price policy has hitherto been the main means of supporting agricultural incomes, it mainly benefits large farms which are in fact those which least require increases in prices to support a reasonable standard of living. Consequently, the price policy alone is not capable of solving the fundamental problems of agriculture and even contributes towards widening the gap in agricultural incomes. A socially-orientated agricultural policy is required to solve the above problems. In order to select the right instruments for such a policy we have to know how important a place we should give to agriculture in the Community economy and how many persons are consequently required in this sector. Economic and social facilities will then be necessary to enable the agricultural population to decide freely whether they wish to continue their agricultural activities or not.

It is therefore regrettable that this policy is so slow to get under way. If more money had been allocated to the common structural policy there would have been speedier realisation of structural improvements and less expenditure would have been required for market support measures and the price policy.

1) Doc. 301/76

2) Com(76) 87 final

It is therefore necessary that, in the allocation of Community resources greater account should be taken of the Community's structural policy than has hitherto been the case."

#### Second report on Agricultural reform

10. The Commission has made available a remarkably clear and readable report<sup>1</sup> on the application of the Council directives on agricultural reform. In this document, the Commission repeated what had already been stressed earlier by Parliament: "support of markets and agricultural prices alone is not enough to solve the income problems of market farmers who operate relatively small holdings", (paragraph 1.3).

11. The report goes on to point out that markets and prices policies and the structural policy should complement each other. Here again, the Commission's line is in accordance with that of Parliament. However, it should perhaps have gone on to stress that more emphasis should have been laid on the guidance side.

#### Shortcomings noted by the Commission in the execution of the socio-structural directives<sup>2</sup>

12. As regards the common measures, the Commission points out that data on implementation is still outstanding for some Member States; this is attributable to the fact that the political and administrative authorities have been slow in putting national provisions into effect. Furthermore, it pointed out that, towards the end of 1977, Italian farmers, for instance, were still not reaping the benefits of the common measures.

13. As regards Directive 72/159/EEC, the report indicates that there has been an intensification of production in certain regions of the Community and this has been particularly pronounced in the livestock sector, including milk products. This particular development illustrates, as the Commission rightly points out, "the need to keep to the primary objective of the agricultural structures policy, i.e. to bring about a substantial change in production structure, in particular by increasing the area farmed by each holding", (paragraph 2.11).

14. As regards Directive 72/160/EEC, data available up to 1975 and estimates for 1976 reveal the fact that some 37,500 farmers have received either retirement annuities or a lump sum payment. However, an analysis indicated that only 12% of the area released has been used for the purposes specified in the Directive and that repayment has only been sought in less than 2% of cases. The Commission goes on to state that "almost no Member State

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<sup>1</sup>Com(77) 650 final

<sup>2</sup>Directive 72/159/EEC, 72/160/EEC, 72/161/EEC & 75/268/EEC.



tries to influence the use made of land released by farmers reaching retirement age", (paragraph 2.12).

15. As regards Directive 75/268/EEC, the Commission indicates that the compensatory allowances are fixed at very different levels which cannot always be justified by real variations in the severity of the handicap.

Specific problems identified by the Commission

16. In a working paper such as the present which, in dealing with value for money spent, must look at all the aspects of common agricultural activity, it is appropriate to list the problems identified by the Commission in trying to work out an appropriate overall policy. These problems are:

- the onset of the economic recession;
- inflation which has added to costs of farm development plans;
- the less powerful appeal of industry to farm labourers;
- the divergencies in the economic development of the Member States;
- the sharp upswing in farm land prices;
- regional industries hit by difficulties in a time of recession;
- insufficient budget resources (unfortunately not only for the CAP);
- physical constraints such as water shortage;
- absence of adequate infrastructure, i.e. roads, etc.;
- lack of vocational training among agricultural workers;
- lack of effective technico-economic advisory services; and
- inadequate resources made available by certain Member States.

17. With this litany of difficulties in mind, one is struck by the need to ensure that everything possible is done to get best value for money spent in relation to agriculture, to nudge production towards products which are under-supplied in the community at present and, above all, to make sure that there is no pyramiding of costs<sup>1)</sup>. Identifying these desiderata is, admittedly, easier than securing their achievement.

<sup>1)</sup> For instance, at paragraph 79 of the Audit Board report on the 1976 accounts reference is made to two projects which were "motivated more by the consequences of measures taken within the framework of the guarantee section than by a desire for a genuine restructuring of the sector with a view to increasing its productivity and reducing market intervention measures".

## State aid to agriculture

18. As the following table shows, Member States' national expenditure in respect of production (including advisory services and research) processing, marketing and consumption of agriculture and food products in 1975, came to a very considerable amount.

### National & Community expenditure on agricultural policies in 1975

		<u>MUA</u>
A - National expenditure		
Production, processing & marketing		5,972.3
Consumption		1,116.9
Research & advisory services		410.7
Social insurance		1,730.9
	Total	9,230.8
B - Community expenditure		
Guarantee		4,727.3
Guidance		257.9
	Total	14,216.0

19. This particular aspect warrants close watching by the Commission and, indeed, by the Court of Auditors because the possibility exists for Member State activity to run counter to the objectives of the Community budget. Whilst much of this aid is considered by the Commission to be in line with the aims of the Common Agricultural Policy, there is a danger that it could operate to alter the conditions of trade to an extent that would be contrary to the common interest.

20. As the Commission points out<sup>1</sup> at paragraph 324, state aid in the form of income subsidies could tend to have protective effects and could operate in a manner that would prevent agriculture from finding its proper place in the general economic context and could delay the achievement of the aims of the Common Agricultural Policy. The Commission goes on to say that "such aid is very likely to affect trade between Member States and to distort competition; it thus constitutes a considerable barrier to the implementation and operation of the Common Agricultural Policy".

<sup>1</sup> The Agricultural situation in the Community - 1977 report

### Closing of EAGGF accounts for earlier years

21. In the sixth financial report on the EAGGF for 1976, the situation in regard to the clearance and closure of accounts for earlier financial years is summarized. Briefly, the situation is as follows:

- the accounts for four periods 1967/68, 1968/69, second half of 1969, 1970 are the subject of a special proposal for a financial regulation<sup>(1)</sup>;
- the accounts for the 1971 and 1972 financial years were held up because of certain difficulties related mainly to the question of the degree of responsibility of the community and the Member States respectively in the case of expenditure that is not in accordance with Community regulations; but these are now considered closed, subject to a reservation arising from a case brought before the Court of Justice by France, Germany and the Netherlands;
- final verification of the 1973 accounts is virtually completed;
- for 1974, the scrutiny of the accounts was delayed until the figures for the years 1973 and earlier had been sorted out;
- for 1975, a timetable for the despatch of the documents was agreed with the Member States: the material should have been transmitted by October 1976 but, in certain cases, only arrived in late July 1977.

22. On 12 May 1978, Parliament adopted the report<sup>(2)</sup> of the Committee on Budgets which endorsed the Commission's proposal for a single financial regulation to tidy up the EAGGF, Guarantee Section accounts for the period up to end 1970. In doing so, Parliament criticised the long delays in clearing the EAGGF accounts, pointed out that excessive delays tarnish the image of the Communities (and make work in regard to the control of irregularities more difficult) and urged the Commission to take all necessary steps with a view to expediting the clearing of the accounts for 1973 and subsequent years.

23. Parliament is keenly conscious of the importance of the timely clearance of accounts and had this in mind when adopting amendment No. 27 on 15 December 1977 which added 37 B and C posts, in all, in the DG VI area of Commission activity. It would be interesting to learn how rapidly the Commission managed to fill these posts.

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<sup>(1)</sup> Doc. 360/77

<sup>(2)</sup> Doc. 91/78

The economic effects of the agri-monetary system

24. The unity of the common agricultural market has been broken by the use of green rates different from the market rates.
25. The use of MCAs represents an attempt to enable the common organization of the agricultural markets to continue operating despite different price levels within the common agricultural market.
26. It is most important, from a budgetary point of view, to be able to assess the economic effects of the agri-monetary system. In a recent communication<sup>1</sup>, the Commission has endeavoured to carry out such an assessment. However, the results of the study are somewhat equivocal.
27. First of all, the Commission economists point out that whilst, in theory, the introduction of the agri-monetary system should have offset the effect of monetary funds on production and consumption, and while the situation on agricultural markets would have been even more difficult were it not for the special measures taken, the theoretical implications are difficult to quantify because there is virtually no basis for comparing the actual situation with the hypothetical one.
28. At paragraph 18 of this communication, the Commission points out that it is difficult to deduce that the agri-monetary situation has been entirely responsible for any given production trend. At paragraph 23 it is indicated that "it is difficult to discern the specific effects of the agri-monetary system on food consumption". Nevertheless, at paragraph 22 the text states that the agri-monetary system has given rise to discrimination between consumers in the Community.
29. As regards the impact on the allocation of resources, the document states that theoretical implications are difficult to prove and at paragraph 27 it is stated that "an examination of the trend of production and the relative shares of member states has not led to any definite conclusions".
30. It is most important that the economic effects of budgetary decisions should be known. This is particularly true when the expenditure involved constitutes a considerable element of total Community resources. The Commission should be urged to continue their research into this aspect; indeed, when looking at accounts for future years, the Court of Auditors could also perhaps consider determining what techniques might most appropriately be evolved for tackling the problem of gauging the effect of Community expenditure in the domain of agriculture.
31. In the following section, however, a preliminary effort is made to gauge the impact of MCAs.

<sup>1</sup> COM(78) 20 final

Some further comments on MCAs

32. Monetary compensatory amounts have become one of the principal features of the CAP, and are a source of much dispute. Applied originally to prevent currency fluctuations affecting producer and consumer prices, they have developed to such an extent that the Community has been effectively cut up into different price zones. Economically, the transfers involved in MCAs are quite straightforward. Consumers in countries with depreciating currencies receive a subsidy in the form of MCAs equivalent to the difference between the price they would normally have to pay and the actual price. For countries with revalued currencies producers receive a transfer of the same type and dimension, but which takes the form of a tax on consumers. Financially, the situation is not so straightforward. Countries with depreciating currencies do not 'receive' MCAs because they are paid usually to the exporting country, where they are added to or subtracted from the MCAs applied in the exporting country. Balance of payments arguments have induced certain countries, to sacrifice their consumers to obtain price advantages for their producers through MCAs.
33. Some countries argue that MCAs reduce inflation by subsidizing consumer prices and that this has the effect of stabilizing the exchange rate which in turn limits MCAs. Others believe that subsidizing prices encourages consumption and discourages domestic production and that the balance of payments situation deteriorates further through the effect of MCAs. According to this point of view, if transfers are necessary, they should be made through investment, which improves the competitive position of the economy and enables consumers to purchase food at its full cost.
34. In order to clarify the debate on MCAs, irrespective of their effect on inflation and the balance of payments, it might be worthwhile to measure the size and direction of transfers for the Community as a whole. This is not easy to do since production and consumption, exchange rates and representative rates all vary. Using figures for production and consumption, which date from 1975, as a model with which to calculate transfers along with the representative rates agreed at the 1977 price review, certain pointers are seen. Production and consumption of products covered by a price guarantee, for which MCAs apply, were multiplied by the relevant guaranteed price. Although the figures are fairly complete on the Community level, Italian production is underestimated since no data is available for certain products. For the total of Community production and consumption the intervention price in units of account was used, but for Member States, prices were converted into national currencies at representative rates. The totals of production and consumption in national currencies were then converted back into units of account at representative rates, added up to form a new Community total and this total compared with the original total. The difference between the totals of national production and consumption converted at representative rates and the Community total found by multiplying Community production or consumption by the intervention price rates should represent the transfer effect of MCAs. The results of this exercise are given in the following table:

PE 54.551/fin.

Millions u.a.

	Eur 9 Production & Consumption at Intervention prices in u.a.	Eur 9 Sum of Member States Produc- tion & Consump- tion using representative rates	Sum of Production and Consumption in Member States intervention prices at representative rates		
			D	F	I
Production	53104.5	59721.7	9932.2	25457.8	11440.1
Consumption	59187.9	62251.1	13953.6	14719.9	15086.7

Sum of Production and Consumption in Member States  
intervention prices at representative rates

	NL	B/L	UK	Ir	Da
Production	2789.9	1961.6	4752.3	1062.8	2325.0
Consumption	4023.5	2499.6	9693.0	664.6	1610.2

35. It would seem that the effect of representative rates is to raise the producer price level 12½% above that which it would be otherwise and the consumer price level by 5%. If MCAs were being used simultaneously to lower consumer prices and raise producer prices then there might be some justification for the mechanism. As it is, the effect is quite simply to raise the price level in the Community, when the level of price is a subject for the price review. The conclusion could be that resources could better be used elsewhere.
36. Turning to the Guidance Section of the EAGGF, analysis in terms of transfers is not so easy. Expenditure on productive investment is qualitatively different from other types of support. If aid is provided through interest-reduced loans or improvement grants, producers must still repay the rest of the capital cost, and investment expenditure can then be considered as an incentive to saving within the agricultural sector. But to the extent that investment grants would have found productive use elsewhere, they still represent transfers into the agricultural sector. The economic cost of these transfers will be the difference in yield between agricultural investment and investment elsewhere. These preliminary reflections lead to a further look at the background considerations, costs and policy objectives of the CAP.

### Background considerations on the CAP

37. Excessive weight of agricultural policy in the Community's budget and wastage of public money by agricultural policy makers are common criticisms, and the upheavals in world commodity markets (including key agricultural products such as wheat, sugar and beef) inflation, unemployment and instability on the exchange markets have done little to allay them. Criticism has concentrated on cost to the exchequer, surpluses, consumer prices and food shortages, and the level of agricultural incomes, according to the nationality of the critic and when it was made. Since the Community's budget is the expression of policy decisions taken for a particular sector, it would be useful to measure respectively the financial and economic cost of the CAP, and try to relate costs to the principles and instruments of agricultural policy. In this way a clearer picture of costs that are 'justifiable' and those that are 'superfluous' can be obtained.

### Measuring costs

38. Measuring costs, even in the wider economic sense, is not however sufficient. Just as the budget expresses policy decisions, so only alternative policy decisions can substantially affect the level of expenditure. There have been a number of proposals for changes to be made in the CAP, often quite radical in nature, and in examining them an attempt should be made to show how their financial and economic effect might differ from existing arrangements. Before doing so, it will be necessary to make some preliminary definitions, to review the conflicting aims of agricultural policy and the economic instruments available for measuring the efficiency of policy decisions made. (As well, it must be realised that, in a paper such as the present, questions can be put but finding the answers is a longer-term exercise.)

By financial cost is meant the sum of public expenditure on agricultural policy. By economic cost is meant the effect of agricultural policy on the volume and distribution of national income.

### Policy objectives

39. As far as the objectives of the CAP are concerned, the much quoted Article 39 of the Treaty remains the best starting point. All the instruments and regulations which have been created under the CAP are only attempts to achieve these objectives. Even the three cardinal points of the CAP, free movement of goods within the EEC, Community preference over third countries, and Community financing of agricultural legislation, must be related to Article 39, which states that the objectives of the common agricultural policy shall be:

- (a) to increase agricultural productivity by promoting technical progress;



- (b) thus to ensure a fair standard of living for the agricultural community;
- (c) to stabilize markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

40. Furthermore, in working out the common agricultural policy and the special methods for its application, account shall be taken of:

- (a) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;
- (b) the need to effect the appropriate adjustments by degrees;
- (c) the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.

41. The five objectives of the CAP are a fairly classic enumeration of what agricultural policy is supposed to achieve. In Britain, the 1947 Agriculture Act sets out more or less the same objectives with the proviso that support would be limited to, 'such part of the nation's food ..... as in the national interest it is desirable to produce in the UK.' Thus, even when general principles are being stated, specific agricultural problems of a particular region can limit the scope of agricultural policy. For Britain, heavy dependence on imports dictated many of the instruments adopted to implement policy objectives. For the EEC it is necessary to take into account structural and natural disparities between the various agricultural regions.

42. Evaluating agricultural policy requires, therefore, a double approach; firstly, the principles underlying the policy must be examined to see whether they are mutually coherent, and secondly, any special characteristics of a particular policy must be related to the basic principles.

43. The five objectives laid down in Article 39 partially complement and partially conflict with each other. Increasing agricultural productivity by promoting technical progress must be the least controversial of all objectives, but when it comes to defining how it is to be done or measuring progress, the problem becomes more complex. Labour productivity can be raised quickly by injecting additional land or capital into farms. In practice the supply of land is fixed and increasing the size of farms can only be achieved through farmers leaving agriculture, which requires structural adaptation, whilst additional capital merely replaces one factor of production with another. Even if labour productivity increases, the overall productivity of resources (and therefore of agriculture's contribution to the economy) may not have changed.

PE 54.551/fin.



44. Ensuring a fair standard of living for the agricultural community is compatible with stabilizing markets, assuring the availability of supplies and ensuring that supplies reach consumers at reasonable prices provided that it is achieved through increasing productivity as the Treaty states that it should. However, using the price mechanism to increase returns to the producer will inevitably have repercussions on the other objectives. Prices which would provide a reasonable income for producers may very well not be compatible with stabilizing markets. Increasing production to assure the availability of supplies can only be achieved in the short term by raising prices, which in turn will affect consumers. To a considerable extent, therefore, agricultural policy must consist in a balancing act, setting off one objective against another, hoping to reach a reasonable compromise in the long term. It follows that at any one point in time or for any one region of the Community, the balance may not be exactly kept. Achieving an overall equilibrium is the most that can be expected from agricultural policy.

#### Economic Analysis of Agricultural Policy

45. From the point of view of the national and Community exchequers, all expenditure is equal since all requires revenue to be raised in the same way. The economic effect of expenditure, nevertheless, varies according to the type of action taken and according to the method of financing adopted.
46. Essential to the economic measurement of agricultural policy is the concept of transfers, which may be either 'visible' through the mechanism of public financing or 'invisible' through, for instance, raising the price level for agricultural products above that which would have pertained in a free market situation. Only the net or 'global' effect is important from the economic point of view.
47. In dealing with the EAGGF, Parliamentary control must concern itself more and more with the economic impact; it is not enough to check that the expenditure occurs on the lines shown in the annual budget. A special effort must be made to ensure that economic management, in the broadest sense, is sound and that wasteful or unproductive outlay is avoided. Of course, keen attention will need to be paid to irregularities which form the subject of the following section of the working document.

## Irregularities

48. Frauds - more euphemistically called "irregularities" - in the domain of the EAGGF, or more usually allegations of frauds, get wide coverage in the press. Public opinion, Parliament and, indeed, all the institutions of the Community are concerned about such allegations which are frequently made - but which are less frequently proved to be well founded.

### Responsibility for pursuing irregularities

49. Under Community law<sup>(1)</sup>, member states are required to take the necessary steps to prevent irregularities and to recover sums where irregularities have occurred. Under Articles 3 and 5 of Regulation 283/72, member states are obliged to provide information on the working of the system of control of irregularities. In its most recent report<sup>(2)</sup>, the Commission states that the information system is working in a generally satisfactory manner. However, the Commission goes on to state that - "It is sometimes necessary to remind certain member states of the deadlines to be met. The data received also tend to omit details, sometimes of an elementary type, and the Commission staff is obliged to ask for these details...".
50. These failures on the part of member states are to be deplored. It is to be hoped that, henceforth, member states will endeavour to observe the minimal requirements set out in Regulation 283/72. Indeed, the Commission's observations on the manner in which member states respect their obligations, insofar as the pursuit of irregularities is concerned, leave something to be desired. For instance, at table 18 of COM(77) 591, which is summarised below, a situation which is rather difficult to understand emerges. It is surprising, to say the least, that in two major agricultural states only 1 and 5 cases of irregularities respectively, should have been reported.

### Cases of irregularities reported

<u>Member State</u>	
United Kingdom	126
Germany	91
Ireland	22
Netherlands	7
France	5
Belgium	5
Italy	1
Denmark	1
Luxembourg	0
<u>TOTAL</u>	<u>258</u>

(1) EEC Regulations 729/70, 283/72

(2) COM(77) 591 final, paragraph 7.1.3.

Breakdown by category of these cases

51. Of the 258 cases concerned in the reports received by the Commission, 148 concerned monetary compensatory amounts and 9 concerned accession compensatory amounts. Two member states, the United Kingdom and Ireland, reported 144 of these. Non MCA or ACA irregularities reported numbered only 109 cases in all. These "general" irregularities were reported by the following member states:

Germany	89
United Kingdom	6
Netherlands	5
France	4
Belgium	2
Ireland	2
Italy	<u>1</u>
	<u>109</u>

No "general" cases were reported by either Denmark or Luxembourg.

52. Overall, this summary could be taken to reflect a certain unevenness in the pursuit of irregularities in the sphere of the EAGGF in certain member states. After all, irregularities can quite easily arise from the incorrect application of what are highly complex regulations and procedures.
53. The following table shows the growth in detection over recent years. This trend is not necessarily an indication of a rise in the level of frauds but it does show that the need to follow up irregularities is being taken more seriously.

The problem is that these cases may represent only the tip of an iceberg: therefore, everything possible must be done to keep up the pressure for detection of irregularities and to improve methods of control.

Sectors	Number of Cases					
	1971	1972	1973	1974	1975	1976
Cereals	-	9	26	63	67	76
Beef & Veal	-	4	-	2	7	8
Pigmeat	2	-	1	4	12	2
Milk Products	4	5	18	11	7	11
Wine	-	-	-	-	1	10
Sugar	-	-	2	2	1	-
Fats & Oil	-	-	1	2	16	-
Eggs & Poultry	2	-	1	3	5	-
Dehydrated fodder	-	-	-	-	2	-
Fruit and vegetables	-	1	-	-	-	-
Others	-	1	2	2	1	2
Sub Total:	8	20	51	89	119	109
MCAs	-	-	-	3	23	148
ACAs	-	-	-	1	3	39
Grand Total: *	8	20	51	93	139	258

\* Note: some cases overlap as between categories.

54. A remarkable feature of this table is the large number of cases reported in the cereals sector while relatively few cases are signalled in the meat, milk products and wine sectors which are frequently the subject of newspaper articles implying irregularities.

Amount of the irregularities reported

55. The following table shows the totals, for recent years, of the sums involved in the cases of irregularities reported:

<u>Year</u>	<u>Total involved</u>	<u>of which recovered at 31.12.1976</u>
	u.a.	u.a.
1971	8,234,436	8,009,459
1972	2,077,562	662,991
1973	1,399,829	571,738
1974	4,022,766	518,973
1975	2,547,582	622,332
1976	5,560,829	1,664,465

56. The total amounts involved are not particularly great when regard is had to the total size of the Community budget and to the complexity of Community regulations which, by their very nature, could give rise to fortuitous irregularities. It is surprising that the total of irregularities reported in 1976 comes to rather less than 0.1 per cent of the amount of the appropriations available for the financial year, for the EAGGF.

57. An aspect which must cause some concern is the slow rate of recovery of the sums involved in the irregularities reported. Less than one-third of the 1972 sum had been recovered four years later; of the 1974 irregularities identified, only one-eighth had been recovered by the end of 1976. The Control Sub-Committee would urge that a special effort be made to speed-up procedures and to recover community funds far more promptly.

Special Committee of Inquiry

58. A particular reference should be made to the work of the Special Committee of Inquiry<sup>(1)</sup>. The Sub-Committee has already received four of its reports on EAGGF Guarantee Section on -

milk and milk products,  
oilseeds and olive oil,  
beef and veal, and wine.

These have been of a consistently high standard and have put forward many worthwhile suggestions for tightening up on fraud and irregularities in the management of the EAGGF.

<sup>(1)</sup> Set up by the Commission on 3 October 1973 and which had its terms of reference extended by Commission on 5 March 1975.

Points raised in the Audit Board's report on 1976 activity

59. During 1976, the Audit Board carried out inspections<sup>1</sup> in five Member States and made the following observations:

- In one Member State the inspection of the financial and materials accounts kept by beneficiaries of aid from the Guarantee Section - which is an important element in the fight against irregularities - is entrusted to an internal audit body with only limited staff and which carries out inspections of only certain sectors;
- in other Member States, information on the extent of the checks carried out on undertakings or the results of auditing operations were not readily available;
- as regards the analysing of samples of products for export, the Audit Board found that the percentage of products analysed appeared to be low and rather long delays occurred between taking samples and submitting the results;
- as regards the cost of public storage, the Audit Board found that, in two Member States, rates for storage "had been fixed by negotiation and there had been no invitation to tender or examination of the storage operators' costs and profit margins to check the validity of these rates...."

The storage costs declared by one Member State to the Commission were the average of the prices put forward by the 70 tenderers and not the lower average of those put forward by the firms actually selected. The effect of this was to increase the flat rate laid down by the Commission for the reimbursement to Member States of the costs of storing cereals, since this flat rate is precisely the weighted average of the rates declared by the Member States."

The Control Sub-Committee agrees with the Audit Board that reform of these methods is a matter for urgent action because there is "no certainty that the amounts paid are fair and economically justified nor, accordingly, that the management of the scheme is sound."

- as to accounting systems, the Audit Board noted that, in the case of one Member State, "the way the accounts are drawn up makes it very difficult and laborious to check individual transactions and the accuracy of the declared amounts to be paid from the budget of the EAGGF (Guarantee Section)."

Whilst reorganisation of the system of accounts is underway, and transitional procedures have been introduced, it is essential that the new procedures be made effective as soon as possible so that adequate controls may operate.

<sup>1</sup> Audit Board Report, 1976, paragraph 67(A)

- as regards the aid for the consumption of butter<sup>1</sup>, it is stipulated that the aid should benefit "private ultimate consumers". The Audit Board agrees with the view expressed by one Member State that it is impossible to verify that this proviso is respected. The Control Sub-Committee agrees fully with the view of the Audit Board that "This is a further example of the illusion of the security of Community funds given by practically unenforceable provisions in the Regulations."

This and similar provisions in the Regulations should be amended as soon as may be.

- as regards exports of butter, the Audit Board found that, in one Member State, analysis of samples was not carried out for the purpose of determining the fat content of consignments. Instead, recourse was had to a statistical method which, in the view of the Audit Board, was of an irregular nature. The Audit Board took up the matter with the authorities concerned but was informed that this Member State has no intention of changing its practice.

- insofar as the 'butter boats' which operate shuttle services on short routes within the community are concerned, these used to take on stocks of butter on which export refunds were paid<sup>(2)</sup>. This butter was largely sold, during the voyage, to community residents who reimported it without paying any duty. The Commission took action after some delay but the Control Sub-Committee concurs with the view of the Audit Board that "these forms of trade on board ship should be prohibited entirely".

- as regards aid to durum wheat, the Audit Board has urged that uniform procedures for checks be operated with regard to verifying the quality of the wheat and the area sown: the Control Sub-Committee concurs in this.

- as regards the payment of aid for durum wheat, the Audit Board noted (i) long delays in the making of payments and (ii) that there were substantial sums being held in special accounts because of uncashed cheques. The Control Sub-Committee agrees that these issues should be cleared up as soon as possible.

<sup>1</sup>Regulations Numbers 1191/73 and 562/76.

(2)  
Under Regulation No. 192/75

60. The Audit Board was of the view that it was not within its responsibility to question the political decisions which led to the creation of the common agricultural policy. Therefore, it confined its role to an examination of the implementing of the budget. The Control Sub-Committee is of the view that the responsibility of the Court of Auditors under Article 206A second paragraph, to examine "whether the financial management has been sound", entitles the Court to take a broader view of its task.

61. The work of external control of expenditure is a continuing ongoing process; therefore, the Court of Auditors will find it necessary to take up the various files opened by its predecessor and follow on with the issues broached by the Audit Board. At paragraph 67(8), the Audit Board sets out a summary of the results of its investigations of the way in which certain aids and export refunds had been calculated. For ready reference, the key conclusions of the Audit Board are set out below.

#### Aid to skimmed milk processed into casein or caseinates

62. In regard to this aid, the Audit Board was "forced to conclude from the information received that the data used for fixing the rates of aid granted to producers of casein and caseinates are only remotely related to the actual production position in the industry. This being so, it is unable to extract from the documents relating to expenditure any assurance of good financial management in this sector".

#### Aid to durum wheat

63. Having examined the background, the Audit Board came to the conclusion that "the explanation of the way in which the amount of aid for 1976/77 was determined fails to demonstrate that the aid was fixed at a level appropriate to the circumstances".

#### Export refund for malt

64. This issue was looked at in some depth by the Control Sub-Committee in the past and the conclusions reached by the Audit Board are endorsed. These are as follows:-

"Unforeseen events can suddenly render unworkable a refund rate laid down on the basis of the market situation at a given moment. This, while it is undeniably true, highlights the need for reliable and constantly updated information on market prices and developments, the need to react promptly to changing circumstances, and the risk inherent in fixing refunds in advance for long-term export licences.

In the present case, the Audit Board concludes that there was a lack of sound financial management, in that the Commission's sources of information were apparently not good enough and it did not react as quickly as the exporters to the changes in market conditions. The Audit Board suggests that the Commission should endeavour to improve the quality of its information".

PE 54.551/fin.



#### Common organization of the market in raw tobacco

65. In this domain, the Audit Board expressed surprise "at the general nature of the explanations given on the fixing of norm prices and the apparent lack of any study aimed at establishing whether 'rational management' has in fact gradually been achieved". The Board considered, moreover, that it is "obvious that there will be a certain propensity to cultivate the varieties most in demand, which is in any case in line with the dictates of normal commercial practice. The method adopted for establishing world prices on the basis of data provided by the Community organizations concerned does not appear to be the most likely way of obtaining objective information".

#### Calculation of export refunds for butter

66. The Audit Board's conclusions in regard to this market are as follows:-  
"The Commission makes a considerable effort to gather information on prices paid for butter on the various fragmentary markets in the world. The information must by the nature of things be incomplete, especially in view of the fact that a number of quotations are not published. The Audit Board is not convinced that it is in practice possible to fix the rate of refunds in strict compliance with the criteria set out in Section 72a of the present report. It has doubts as to the effectiveness of the Commission's efforts...".

#### Export refund on white sugar

67. Following are the Audit Board's conclusions:-  
"sugar is another of those products for which export refunds are fixed on the basis of incomplete information regarding market conditions. It doubts whether the tendering procedures can effectively ensure that exporters will not obtain excessive refunds, particularly since the Commission has no information on the contract prices actually obtained".

#### Audit Board's overall conclusions

68. The Audit Board drew attention again and again to the lack of clarity in the regulations which provide the framework for determining refunds. It commented several times on the imprecise nature of the systems and went on to state that "The replies to the Audit Board's questions have sometimes been almost as vague as the regulations themselves. It emerges from the explanations given that the Commission fixes rates of aid or export refunds on the basis of information which is incomplete or of dubious objectivity. While this is unavoidable in certain cases, there are others where the necessary investigations do not seem to have been sufficiently thorough.



The Audit Board is unable to conclude that financial management in the sectors investigated has been sound in the sense of achieving the desired objectives at the lowest possible cost or even, in certain cases, of achieving them at all. It thus recommends that the Commission should reconsider the implications of these objectives together with the practical possibility of achieving them".

#### Conclusions of the Control Sub-Committee on this analysis

69. The Control Sub-Committee noted with considerable interest these carefully drawn conclusions of the Audit Board which, in its final report, set out some of the difficulties which impede the Commission in its work on EAGGF (Guarantee Section) management. The markets concerned are relatively disorganized and fragmented, changes in trends occur rapidly and the basic regulations are extremely complicated, difficult to interpret and lacking in precision. A great deal of work needs to be done to straighten out these shortcomings. Indeed, it may well be that the sheer complexity of the basic regulations is an element responsible for the relatively low number of irregularities reported, because the complicated nature of the arrangements are so involved that the detection of breaches is virtually impossible on an extensive scale unless a large team of accountants is involved.

#### Intervention aspects

70. There are three aspects on the intervention activities of the Community which warrant being clarified. Buying into intervention is an indispensable and integral element of the Common Agricultural Policy. Whilst the arrangements vary considerably, broadly speaking, when over-production on the market has the effect of pushing prices downwards, buying in by the intervention agencies is virtually inevitable. From the control aspect, 3 elements of information should be brought out fully if budgetary transparency is to be fully ensured. These are:

- the capital gain or loss arising from the buying in and selling out of commodities;
- the actual cost of storage broken down into its main constituents - buildings, plant running cost and other overheads; and
- the interest on the capital involved.

71. At a number of meetings earlier this year in the context of the preparation of the Ryan report<sup>(1)</sup>, the Committee on Budgets considered the financing of intervention in some considerable detail. The Committee was struck by the size of the sums involved and called on the Commission, in the interest of budgetary transparency, to present a breakdown which would show separately the expenditure arising from normal storage costs, from deterioration in storage and from interest charges.

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<sup>1</sup> Doc. 78/78

72. The Committee on Budgets pointed out that persistent surpluses of agricultural products should be avoided because these entail a waste of resources and reflect unfavourably on overall Community policy. As well, the Committee on Budgets considered that a comprehensive review of intervention arrangements is essential and it asked that the Commission provide a report on the working of the system by the end of this year. Furthermore, the Court of Auditors was asked to comment in detail on the operation of the intervention agencies, in its annual report, from the viewpoints of 'regularity of procedures, economy in the use of resources and soundness of the financial management in responding to Community policy. Parliament discussed this report in its sitting of 11 May and adopted the resolution, put forward by the Committee on Budgets, on 12 May.

73. Against this background, the Control Sub-Committee feels that further in-depth examination of the intervention arrangements will need to be made by it when the Commission's report becomes available towards the end of this year and again when the Court of Auditors reports its findings in regard to the system. As well, it is hoped that the provision of additional data in the annual budget on the constituent elements of intervention expenditure will add to budgetary transparency and will facilitate political control of expenditure in this area.

#### Complexity of the regulations

74. Time and again, the Control Sub-Committee has drawn attention to the very great complexity of the regulations in the sphere of agriculture. This complexity makes it difficult for traders and for other interested parties to apply the Community rules in regard to agricultural products. As well, the detection of irregularities is rendered all the more difficult if the basic rules are of an extremely complicated nature. The view of the Control Sub-Committee as to the complexity of the regulations in regard to the CAP are reinforced by the conclusions of the Audit Board, in its final report, set out at paragraph 68 above. Therefore, a special effort must be made to rationalize, simplify and codify regulations which govern the application of the Community's agricultural policy. It is recognised that this is a complicated task which will take some considerable time to complete; nevertheless, the work must be pushed ahead with because greater clarity and simplicity is essential from the auditing and control viewpoint and, indeed, from the viewpoint of the effective administration of Community policy in relation to agriculture.

PART EIGHT: EAGGF - GUIDANCE SECTION

1. Pursuant to Regulation (EEC) 729/70<sup>1</sup>, the Guidance Section of the EAGGF contributes to the financing of:

- joint schemes agreed on by the Council to achieve the objectives of the common agricultural policy (Art. 39 of the EEC Treaty), i.e. a modern and competitive agricultural sector;
- special measures agreed on by the Council before the adoption of Regulation 729/70;
- individual projects for improving agricultural structures, as laid down in Regulation 17/64<sup>2</sup>, but which have gradually to give way to joint schemes.

These objectives are, unfortunately, far from being achieved. Attention should also be drawn to the following points:

- (a) the amount allocated to the Guidance Section of the EAGGF totals 325m u. a. per annum - a ceiling that has remained unchanged since 1973;
- (b) the joint schemes and special measures have priority in the allocation of funds;
- (c) individual projects may be financed only to the extent that outlay on the financing of the joint schemes remains below the annual amount earmarked for the Guidance Section of the Fund<sup>3</sup>. Despite this, such projects again took up the bulk of available funds in 1976. Experience has shown, in fact, as your draftsman pointed out at the time of the annual discharge for the 1975 financial year<sup>4</sup>, that 'Member States are extremely reluctant to submit to the constraints imposed by the Community's regulations', chiefly because of the contributions they are required to make (from 35% to 75%) and the selection criteria imposed upon them;
- (d) in 1976 appropriations for the Guarantee Section amounted to 5,570m u.a., a figure which serves to underline both the need for a reform of the various financial instruments applied in the field of common agricultural policy, and the demand 'to reduce the budgetary imbalance between the Guarantee and Guidance Sections of the EAGGF'<sup>5</sup>.

<sup>1</sup>OJ L 94 of 28.4.70, p.13

<sup>2</sup>OJ L 34 of 27.2.64, p.586

<sup>3</sup>Regulation (EEC) 729/70, Art. 6(4)

<sup>4</sup>Working document on Chapter 5 (European Regional Development Fund) and Chapter 6, Section II (EAGGF - Guidance Section) of the Audit Board's Report on the accounts for the financial year 1975 (PE 47.591 fin.): p.7 et seq.

<sup>5</sup>PE 47.591 fin., p.5, para. 1

## Utilization of the funds

2. In the report on the accounts for the financial year 1975<sup>1</sup>, your draftsman already pointed out that Regulation 729/70 provides for the progressive replacement of the measures designated as individual projects by measures integrated into a structural policy (joint schemes and special measures).

The following table is intended to show how far it was in fact possible to implement in 1976.

Type of action	1975 in %			1976 in %		
	Final appropriations	Commitments	payments	Final appropriations	Commitments	payments
Individual projects	81	85	75	72	(2) -9	(2) -10
Joint schemes	14	11	18	26	+12	+14
Special measures	5	4	6	2	-3	-3

The figures show clearly that individual reports, while constituting the bulk of the aid (accounting in absolute figures, for some 235m u.a. in 1976), show a slight downward trend in comparison to 1975 in favour of joint schemes, for which appropriations increased from 14 to 26% of the total. In absolute terms, however, the figures are extremely disappointing.

Your draftsman believes the Commission would do well to explain what measures it intends to take, possibly vis-à-vis the various Member States, to speed up this process, which is specifically provided for under Community legislation and is in accordance with the principles on which the common agricultural policy is based. He would also like to reemphasize a number of general points which he considers essential in assuring proper administration of the Fund:

- (a) In the first place, it is important to stop EAGGF appropriations from being used to finance structures which fall outside its terms of reference, or have no connection with the aims of the Guidance Section.

<sup>1</sup> See footnote 4

<sup>2</sup> This column shows the difference as against 1975

It is worth pointing out in this connection that Mr Albertini, draftsman for the Committee on Agriculture, said in his opinion on the Sixth Report on the EAGGF for 1976<sup>1</sup> that it seemed 'illogical for the Community to have financed in 1975 and 1976 many projects in the milk and milk products sector, resulting in the creation of further surpluses'.

- (b) It is also surprising that, despite the observations made at the time of the 1975 discharge on the delays in the entry into force of the directive of 17 April 1972 on the reform of agricultural structures, only limited Community intervention was granted under this directive even in 1976.
- (c) Lastly, with a view to providing a picture of the Community's agricultural policy which more accurately reflects its objectives, the greatest attention must be paid to ensuring that Fund help does not go to finance projects of a non-Community nature.

The Commission is asked to comment on all these points, and, where possible give reasons for its tardiness and failure to meet its commitments.

3. As regards the allocation of funds amongst the various Member States, the following table, drawn up on the basis of figures for individual projects only, shows the percentage shares for 1975 and 1976 worked out on the basis of total grants.

Member State	1975		1976	
	No. of projects	% of total funds granted	No. of projects	% of total funds granted
Germany	171	21.3	177	18.5
Belgium	62	5.4	76	5.4
Denmark	21	4.2	33	3.9
France	63	18.3	82	16.5
Ireland	37	5.1	96	8.6
Italy	155	27.8	203	32.7
Luxembourg	1	--	2	--
Netherlands	56	6.0	35	4.6
United Kingdom	126	11.8	104	9.8
Total	692	100	808	100

<sup>1</sup> PE 53.229 fin. - p.5, point c

In this connection your draftsman would refer once again to Mr Albertini's opinion on the Sixth Financial Report on the EAGGF for 1976<sup>1</sup>, where the point is made that 'the percentage of grants allocated to the less-favoured regions is out of proportion to the needs'; the Commission should explain what it intends to do to correct this anomaly and, at the same time, why this distortion arose.

Points from the Audit Board's report

4. As regards the Audit Board, the following points may be made:

(a) Financing of individual projects

- 1976 was the first year in which the EAGGF committed all the appropriations at its disposal. Your draftsman considers that this is at last a positive development.
- The rate of payment (at the end of 1976) however, was not satisfactory, amounting to 36.9% of the appropriations committed since the Fund became operational. Whilst this continues to represent a slight improvement over past years (at the end of 1975, payments amounted to 36.4% of the total); however this improvement has been so slow that your draftsman feels that he must urge the Commission to speed up the rate of payment.
- Moreover, it is of particular significance that, on the basis of the 67 verifications carried out, the Audit Board made a point of stressing that 'the comments made in previous reports have been confirmed once again this year'<sup>2</sup>. It refers to 'the summary nature of dossiers prepared by national departments', 'considerable unjustified delays', 'lack of any incentive element on account of the beneficiary's market position', 'investments only remotely related to agriculture itself', 'financing of projects for the marketing of products not subject to the common organization of markets' and 'failure to adjust the Community contribution to take account of reductions in costs'.

It is particularly important in this connection that the Commission:

- Insist that the Member States prepare their supporting documents with greater accuracy;
- Take steps itself to ensure that the administrative procedures are concluded more rapidly.

Your draftsman agrees with the Audit Board's assertion that there is no valid justification for a ten-year implementation period. Any funds that have still not been utilized after three years should be automatically withdrawn.

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<sup>1</sup> PE 53.229 fin., page 5, point b

<sup>2</sup> Report on the accounts for the financial year 1976 - page 115

- Select the most valuable projects in order to ensure that the Community funds play a decisive role.
- Act consistently in cases where national aid is cut back by making a proportional reduction in Community participation
- Check that the projects effectively meet the specific needs of agriculture and satisfy the provisions contained in the Fund Regulation.
- Finally, in reading the observations made by the Audit Board, your draftsman notes that certain shortcomings in the management of the other funds (e.g. the Regional Fund), apply also to the EAGGF. This is shown, *inter alia*, by the difficulties which the Audit Board claims to have had<sup>1</sup> in its contacts with the Member States.

Your draftsman would recall that Article 9 of the basic regulation specifically requires the active cooperation of national administrations in supervision undertaken by Community bodies<sup>2</sup>.

- More generally, the Commission should make every effort to seek, in this sector too, as requested by the European Parliament on numerous occasions, effective coordination of policies implemented by it in the various fields, paying particular attention to not financing initiatives and projects whose aims may be contrary to existing policy<sup>3</sup>.

(b) Financing of special measures and joint schemes

- The Audit Board refers to having undertaken 25 verifications involving a total of 7.9m u.a.
- According to the Audit Board, a number of difficulties emerged, attributable in the main to the refusal of the EAGGF's services to transmit essential documents which, since they were not considered binding in nature, would not in any case constitute administrative measures of the kind referred to in Article 89 of the Financial Regulation<sup>4</sup>.

<sup>1</sup> See footnote 10, p.121, para. 92

<sup>2</sup> Regulation (EEC) 729/70, Art. 9(1): 'Member States shall make available to the Commission all information required for the proper working of the Fund and shall take all suitable measures to facilitate the supervision which the Commission may consider it necessary to undertake within the framework of the management of Community financing, including inspections on the spot'.

<sup>3</sup> Attention should be drawn here to the fact that the Audit Board points out that the records make no mention of any study of possible discordances between the policies pursued in the Guarantee and Guidance Sectors - see footnote 10 - p.115, para. 78

<sup>4</sup> See footnote 10 - page 123, para. 75

Your draftsman considers that this problem, which does not, incidentally, affect only the EAGGF, should be resolved through closer cooperation between the various services and institutions of the Community. He therefore requests the Commission to adopt a more helpful attitude in future, particularly in the light of its frequent statements to this effect, by doing its best to accommodate requests made necessary by the requirements of control.

- Other comments concern the conformity of Member States' legislation and regulations with the directives in force; the effectiveness of supervision undertaken by them; and the validity of the checks carried out by the Commission following the discovery of certain inadequacies in the background documentation.

These inadequacies, which were also found when the Board came to look at the 'individual projects', have been discussed above.

### Conclusions

5. Your draftsman endorses the Audit Board's view that external control should involve more than just the accounting aspect of matters with the implications that that has as regards supervision and the eligibility of appropriations.

He would point out that the number of verifications (67 individual projects, plus the 25 dossiers relating to special measures and joint schemes) is still far too small in relation to the projects financed<sup>1</sup>.

He would also draw renewed attention here to two points which he already raised in connection with the discharge for the 1975 accounts, namely:

- (a) the introduction of a simpler and more efficient financing system that will provide more of an incentive to Member States and recipients;
- (b) determining the appropriations to be allocated to Fund projects in keeping with requirements and as part of the budgetary procedure.

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<sup>1</sup> In 1976 the total number of individual projects alone was 1,182, comprising appropriations carried forward or reinstated (374) and new appropriations (808).



## PART NINE: DEVELOPMENT AND COOPERATION POLICY

### I. INTRODUCTION

1. The budgetary presentation of cooperation and development appropriations did not reflect, in 1976, the coordinated Community policy that Parliament and the Commission would like to see in this area, and this is still the case even in 1978. The fact that the appropriations are still divided between Title IX, Title VI and the EDF, which is not incorporated in the budget, is the result of opposition from the Council and its reluctance to reform budgetary structures which are no longer appropriate. This year's working document on the subject will therefore still have to be divided, illogically, into two parts: development aid and development funds.

### II. Part I - Development aid

2. Appropriations entered under this head in the general budget showed an increase of 3.3% in 1976 but 20.31% remained unused. Food aid was the main cause of this dismal performance. Nevertheless, the Commission saw fit to obtain the formal agreement of the Council before committing any appropriations for aid to the non-associated developing countries. Since no conditions were attached to these appropriations in the remarks column of the budget - for example freezing or token entries - the Commission was far too cautious in the exercise of its responsibilities, with the result that no payments could be made for that financial year.

In Parliament's view there is a clear distinction between the measures under Title IX, for which appropriations were entered on Parliament's initiative, and the measures for which the Council claims responsibility. It is interesting to note the Audit Board's remarks on the management and control of the funds earmarked for each of these two categories.

3. The first category - appropriations entered on Parliament's initiative - consists primarily of aid to non-associated developing countries in the form of financial cooperation or specific projects, and aid to the developing countries by non-governmental organizations.

The Audit Board's remarks on these measures and the Commission's replies indicate that the management was generally satisfactory, the rate of utilization of appropriations reasonable, bearing in mind the special circumstances involved, and the control measures as stringent as can be expected. The Control Subcommittee was satisfied from its own investigations that the measures involving non-governmental organizations were properly managed and effectively controlled.

4. In the case of the measures for which the Council claims responsibility, however, the Audit Board is highly critical of the management and control, and its criticisms are not refuted by the Commission. Its views on food aid can be summed up as follows (paragraph 103):

- incorrect estimation of appropriations
- lateness in launching and executing aid
- unsatisfactory mobilization procedures
- problems affecting the transport of aid
- failure to recover the costs of delay
- inadequate control over the utilization of aid and the employment of counterpart funds.

5. Parliament, too, has often expressed concern about these appropriations, especially those earmarked for food aid. It is clear from various written and oral questions and from discussions in the Control Subcommittee that the way the appropriations are used is not necessarily consonant with food aid requirements; that the control, based chiefly on reports by the recipient countries, does not provide an adequate guarantee that the funds are not used for purposes other than those pursued by the Community; and that the utilization of the appropriations is highly sporadic and does not take Parliament's wishes into account<sup>1</sup>.

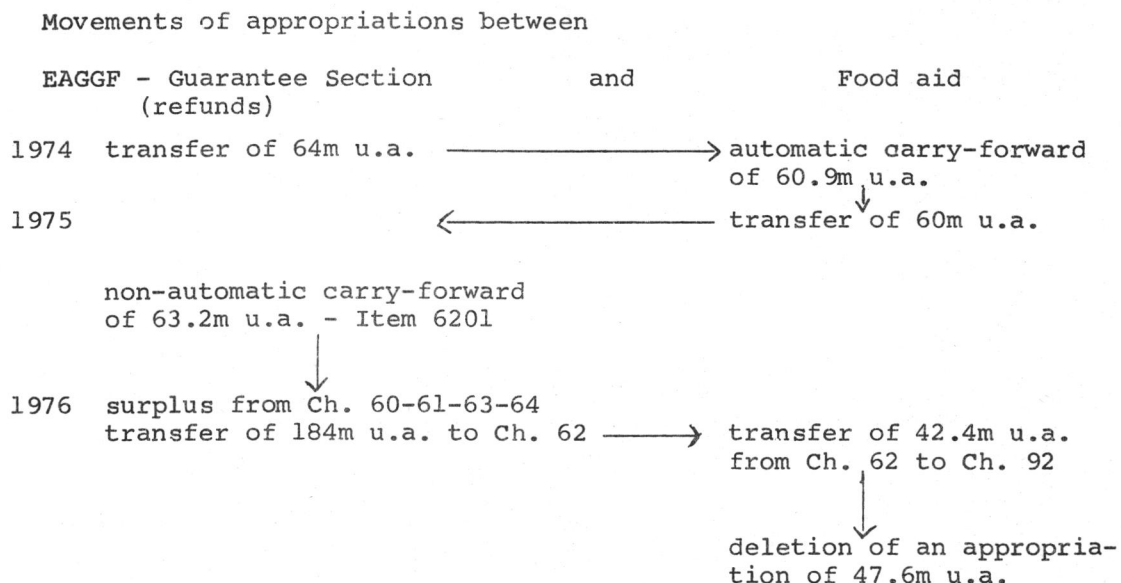
6. In view of this deterioration in the quality of management and control of appropriations which the Council would like to see removed from Parliament's power of co-decision, your rapporteur proposes that the utilization of all appropriations earmarked for development aid should be the sole responsibility of the Commission under an overall Community policy. This policy would be spelt out in indicative multiannual programmes and implemented by the Commission, using appropriations provided for by the Budget Authority. This would have the particular advantage of eliminating the long delays caused every year by the Council's failure to reach decisions.

7. As regards food aid in particular, last year's comment that any suspicion that Community food aid was being used to dispose of CAP surpluses would be politically unacceptable still applies.

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<sup>1</sup> 14m u.a. provided for under Chapter 100 by parliamentary amendment for food aid for the 1977 financial year have been deleted.

In view of the Council's refusal to undertake the necessary reforms, the problem of the budgetary relationship between the EAGGF Guarantee Section and food aid arises once again this year. The following table gives an idea of the 'financial juggling', 'chaotic management' and 'erratic movements of appropriations' mentioned in previous reports.



8. The Audit Board rightly considers that the abnormal movements of funds were caused by questionable use of the transfer and carry-forward procedures rather than errors in the estimates of expenditure. To ensure that the section of the budget relating to food aid ceases to be regarded as a 'reservoir' which can supply or absorb excess appropriations from the EAGGF Guarantee Section, the Council is asked to reconsider its position on the Commission's proposals that the expenditure for food aid refunds be charged to Title 9 of the Budget.

## Part II : The Development Funds

9. In this sector, the subcommittee has made a special effort to **reduce** the problems caused by the delays in discharge decisions which the Audit Board mentions in paragraph 123 of its report. It instructed Mr Bangemann to draw up a report on ways of improving parliamentary control of the European Development Funds. The report proposes that greater emphasis be placed on the political character of parliamentary control and that on the basis of the results of internal and external technical control, the main stress should be laid on an assessment of what has actually been achieved so that practical measures can subsequently be taken.

10. The main implication as far as the drafting of the present working document is concerned is that it differs from the Audit Board's report, for example, in that it does not contain a list - often repetitive - of management errors and shortcomings, but provides an overall assessment and takes both the negative and the positive aspects of management into account. It can thus propose practical political measures.

A. General

EUA

11. Development aid has been a pilot area for the use of the EUA, since the Council decided that the EUA should be used for the Convention of Lomé with effect from 21 April 1975. This has had the effect of delaying the budgetization of the EDF. The experience obtained in this field can thus be applied to the whole of the general budget now that the EUA is to be used to an increasing extent.

12. There are two aspects to this question. First, as has also been found in the case of the ECSC, accounting operations during the period of transition from the u.a. to the EUA are complicated and even to some extent falsified - for example when the Commission converted into EUA all the previous figures that had been shown in u.a.. The Audit Board points out that the overall effect of this operation has been to reduce the balance available for payments in excess of commitments previously made in the currency of the recipient countries. Furthermore, conversion makes it impossible to analyse accounts since the figures shown are not readily comparable.

13. A further point is that the introduction of the EUA in the management of the EDF eliminates the problems arising from the instability of currencies. However, exchange losses can be avoided only if the conversion rate applied is the rate applicable at the date of the operations in question. The Audit Board points out in paragraphs 139 and 140 of its report that this is not always the case.

EIB

14. Under the association agreements, the EIB has extensive responsibilities, relating not only to lending from its own resources but also to the management of a number of projects financed by the EDF, particularly in the form of risk capital. It also administers loans from its own funds that are eligible for interest rebates financed by the EDF. Finally it has a mandate for the recovery of capital and interest on special loans.

15. Operations financed from EDF resources and administered by the EIB are subject to the control stipulated in the Bank's statutes for all its activities. In other words, in practice the Discharge Authority has no control over the management of this part of the EDF, since the jurisdiction of the Audit Board and the Court of Auditors does not extend to the activities of the EIB.

16. In its brief comments on the management of the EIB, the Audit Board draws attention to the arbitrariness of the accounts in the case of revenue derived from interest on special loans and repayable aid, which is a misuse of the concept of a 'reserve'.

17. The Discharge Authority cannot accept that part of the funds for whose utilization it is responsible should not be subject to its control. The rapporteur considers that the EIB's report on the implementation of the projects financed from the EDF and managed by the Bank should at least be forwarded to Parliament, the latter reserving the right to exercise additional control.

#### Ceiling of operations and appropriations for the second and third EDF

18. The overall allocation for each EDF is shared out among the various recipient States according to a fixed scale. Each recipient State must, of course, be paid the total appropriation to which it is entitled. The considerable delays that occur in the management of the EDF, for various reasons which are explained by the Audit Board, mean that there is constant uncertainty as to the extent to which the appropriations have been utilized.

19. The Commission, with the backing of the Audit Board and Parliament, has introduced a ceiling on current operations and the allocations for the second and third EDF. It would also be useful, as the Audit Board points out, for the Commission to avoid taking any further commitment decisions and to allocate the balance available to the third EDF.

#### B. Project Management

20. In paragraph 141 of its report the Audit Board repeats the severe criticisms made in previous reports concerning the planning and execution of projects. It is the Audit Board's task to draw attention to the negative aspects of management. Parliament, for its part, must be able to form a general picture of the management in the light of the Audit Board's criticisms and the Commission's replies.

21. An essential factor mentioned both by the Audit Board and the Commission is that the management of the EDF benefits from the years of experience.

which make Community development aid an example and a model for similar institutions throughout the world.

Nevertheless, there are still a number of problems to be resolved. In particular the new Lomé Convention and its implementing regulation (the financial regulation of the fifth EDF) must ensure compatibility between the legitimate claims of the ACP States to sovereignty and their participation in the management of EDF appropriations at the planning and implementation stages. The Commission must also give greater attention to the problem of payments exceeding appropriations, which are sometimes the result of inflation but can also in certain cases be attributed to inadequate preliminary studies.

#### Investment

22. The management of appropriations earmarked for investment raises first and foremost the question of the cost effectiveness of the projects financed.

The project for the construction of four bridges in the Congo Basin shows how much the success of a project can depend on the policies of the government of the recipient ACP State.

But the cost effectiveness of projects can also depend to a large extent on an 'over-optimistic initial projection of the development possibilities', as was the case, according to the Commission, with the dam-building project in eastern Mauritania. It should be pointed out in connection with this project that the Commission's remarks on the cost effectiveness of the dams does not take account of the inspection reports mentioned by the Audit Board.

23. Technical control by delegations should in principle enable the Commission to assess the financial terms and the success of projects. This is, indeed, generally the case. The Audit Board, however, mentions certain shortcomings in the control exercised by delegates:

- (a) In the case of the horticultural project in Gabon the utilization report requested from the Libreville delegation had still not been submitted three years after the EDF aid had been terminated, which makes it difficult to assess the cost effectiveness of the project.
- (b) Construction of the Doba-Sahr road: the information obtained on site by the local delegate was not sufficient to enable the Commission to make a proper assessment of the undertaking's financial situation.

Because of the crucial role played by delegates in the supervision and control of operations financed from the EDF, it is essential for the

Commission to have full control over this instrument. The inspection visits to be carried out in the coming year could include a check on the reliability of local delegations.

#### STABEX

24. The Committee on Development and Cooperation, in conjunction with the subcommittee, expressed interest in the control of the utilization of sums transferred under the STABEX system and also the methods of calculation and the criteria and statistics used to determine these amounts. A more detailed inspection will be carried out on the basis of an ad hoc report by the Court of Auditors.

#### EAC

25. Parliament's efforts to eliminate the shortcomings criticized by the Audit Board have led the Commission to submit a proposal for the reform of the EAC's statute. Consultations are currently taking place between the Commission's departments and relevant parliamentary organs with a view to evolving a system which would take account primarily of the requirements of budgetary transparency but also of the specific tasks to be carried out.

#### C. Entry into force of the Lomé Convention and discharge in respect of the fourth EDF

26. The Lomé Convention was signed on 28 February 1975 and entered into force on 1 April 1976. The joint application of Article 31(3) of the internal agreement of 11 July 1975 and the new Article 206(b) of the EEC Treaty as amended by the Treaty of 22 July 1975 has completely reversed the division of responsibilities between the Council and Parliament: the decision to grant a discharge for the operations of the fourth EDF is now taken by Parliament alone, simply on the Council's recommendation.

27. The budgetary management of the fourth EDF in 1976 can be summarized as follows:

- Total allocation for the fourth EDF :	3,150m EUA
- Total commitments for the financial year :	382,166m EUA
	12.12% of the allocation and 93 financing decisions)
- Firm commitments :	134.474m EUA
	(4.27% of the allocation)
- Payments :	97.47m EUA
	(3.09% of the allocation)



28. Except in the case of special aid, for which 95.5% of the allocation has been committed, there is a considerable delay in the utilization of the appropriations, particularly if the commitments entered into in the first year of the third EDF are taken into account. The delays in the case of subsidies, special loans and risk capital are particularly marked.

29. It is undoubtedly too soon yet to pass any comment on these delays. However, it has now become Parliament's responsibility to seek the cause of these delays, particularly since the experience gained with the EDF is used as a model when assessing the rate at which appropriations under the other cooperation agreements are utilized.

30. Now that negotiations on the renewal of the Lomé Convention are in progress, it must be pointed out that Parliament will be unable to carry out its overall responsibility for the Community budget

- if the EDF is not entered in the budget
- if the arrangements for this budgetization do not take account of the powers of the Budget Authority
- if it is not provided with the necessary means to carry out its responsibility for budgetary control.



OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman of the opinion: Mr K WAWRZIK

On 21 September 1978 the Committee on Development and Cooperation appointed Mr K. WAWRZIK draftsman.

The committee considered the draft opinion at its meeting of 21 September 1978 and adopted it unanimously.

Present: Mr Bersani, chairman; Mr Lagorce, vice-chairman; Mr Wawrzik, draftsman; Mr Broeksz, Lord Castle, Mr Dewulf, Mrs Dunwoody (deputizing for Lady Fisher of Rednal), Mr Flämig, Mr Martinelli, Mr Osborn (deputizing for Lord Reay), Mr Prescott (deputizing for Mr Dondelinger) and Mr Vergeer.

1. In the second volume of the report on the accounts of the 1976 financial year followed by the replies from the Institutions, part two of which deals with the European Development Fund, the Audit Board begins by stating that the Commission of the European Communities has made considerable progress in drawing up the balance sheets and accounts for the 1976 financial year and in forwarding them to the Audit Board.

It is, however, regrettable that the Audit Board's request that the minutes of the meetings of the EDF Committee should be communicated to it has not been fully complied with.

2. Moreover, the Commission still appears unwilling to provide the Audit Board with the list of visits carried out by officials of Directorate-General VIII. Although the Commission has agreed to forward to the Audit Board the quarterly programme of financial inspection visits carried out by the Finance and Administration Unit of the Directorate-General for Development, it refuses to make available reports drawn up following what are known as administration and action visits designed to examine the conditions under which the projects are carried out.

In its reply the Commission states that the lack of information regarding EDF Committee meetings is due to a misunderstanding on the Commission's part. Henceforth the Commission will send the detailed minutes of EDF Committee meetings in full to the Court of Auditors.

In future, the quarterly programme of financial inspection visits carried out by the Finance and Administration Unit of the Directorate-General for Development will be forwarded to the Court of Auditors.

3. Your committee welcomes this as a step in the right direction but suspects, nonetheless, that without the creation of a control body such as the Court of Auditors the longstanding requests of the Audit Board, which were made solely in the interests of proper control and which have had the unwavering support of the European Parliament, would not have been complied with.

The Audit Board also complains of the excessive delay (from 3 to 6 months) by Directorate-General VIII in answering its questions. The Commission replies that steps have been taken by the Directorate-General for Development to remedy this situation as far as possible.

Finally, the Audit Board complains that it has had to contend with delaying and even obstructive tactics regarding the provision of supporting documents relating to the system for stabilizing export earnings (STABEX). Your committee is deeply concerned by these comments in view of the fact that as a new system STABEX should operate properly and the slightest justified criticism could jeopardize its continuation in the new Lomé Agreement.

4. More serious still are the Audit Board's complaints concerning discrepancies in cross-checks between the statistics of the ACP countries and those of the EEC. Since payments made under STABEX are based entirely on statistical data it is essential that the Audit Board or the Court of Auditors should be given every facility in verifying the accuracy of these statistics.

In its reply the Commission admits that the Audit Board has accurately described the disparities between the import and export statistics thereby implying that it agrees with the Audit Board's criticism.

Consequently, the Commission's unwillingness to draw up a statement on the various procedures followed in carrying out the cross-checks stipulated by the Lomé Convention is very disturbing. In defence of its position the Commission submits that there is no justification for making the cross-checking operations more formal by drawing up a statement, since such a statement is not required under the terms of the Lomé Convention.

5. The Commission states that it is unable to draw up ad hoc documents specially intended for the Court of Auditors. It points out that, as the stage of cross-checking with the ACP countries largely takes the form of discussion with the representatives of the ACP countries concerned, all the points taken into consideration could be communicated verbally to the Court of Auditors by the Commission.

Your committee is not entirely convinced by the Commission's arguments and it would like to be informed of the reaction of the Court of Auditors on this point.

6. The Audit Board's remarks on the general accounts of the four Funds are very similar to those already set out in preceding reports. They concern, in particular:

- the inadequacy of the preliminary studies;
- the slow rate of letting and execution of contracts;
- the unsatisfactory supervision of works in progress;
- ill-timed changes in investment programmes;
- the absence of penalties for late performance;
- the poor liaison between capital projects and training schemes;
- the irresponsibility of certain consultancy firms;
- the unsuitability of various projects for local conditions and failure to utilize completed installations;
- the abnormal delays affecting the financial and accounting closure of contracts and projects.<sup>1</sup>

7. Your committee is aware that a report such as that drawn up by the Audit Board runs the risk of giving a false impression of the activities of the Development Fund, since projects criticized are dealt with at length whereas most of the successful projects are passed over in silence. However, it is disturbing to read that the Audit Board feels that in too many cases the criteria for selecting projects have been undermined by political and economic pressures from the beneficiary countries.

The Commission rejects this criticism. It points out that, particularly with regard to the Fourth EDF, projects were selected within the framework of the development plans and programmes drawn up by the ACP States pursuant to Article 51 of the Lomé Convention (see Annex).

The Commission goes on to state<sup>2</sup>:

'For each State a target programme was drawn up by agreement between the two sides. This target programme was then discussed with representatives of the Member States, with a view to coordinating their policy on development aid with that of the Community.

Therefore it can reasonably be claimed that in the choice of projects for the fourth EDF the desired objectivity was observed as fully as possible.'

Your committee is not totally convinced by this answer and cannot see what legal grounds the Commission could have for opposing projects chosen by an ACP State where it feels that the choice is too politically motivated.

<sup>1</sup> Report of the Audit Board on the accounts for the 1976 financial year - Doc. 132/78-III - Volume Two - paragraph 141, p. 15

<sup>2</sup> Doc. 132/78-III - Volume Two - Commission's Reply - paragraph 142, p. 10

8. Details of analysis of the various projects can be found in the Audit Board's comments and the Commission's replies. In many instances the Commission has undoubtedly been able to explain the difficulties encountered in implementing certain projects.

9. With regard to scholarships and training courses, the Audit Board complains that, contrary to normal practice in bilateral or international aid funds, candidates proposed for scholarships by the ACP States are not selected on the basis of an examination. This omission not only reduces the success rate of the scholarship holders but also excludes any semblance of social equity.

According to the wording of the current agreement, the ACP countries are solely responsible for proposing candidates. Candidates must, of course, meet the academic requirements for admission to the university or college chosen. However, the Audit Board's comments are perfectly valid and it might be advisable to revise the text in question when renewing the Lomé Convention.

10. Your committee wishes to thank the Audit Board for its work. It welcomes the fact that most of the Audit Board's staff will, henceforward, be working for the Court of Auditors. It is convinced that the experience these officials have acquired will enable the Court of Auditors to provide highly effective control very quickly.

ARTICLE 51 OF THE LOME CONVENTION

1. Community aid, which is complementary to the ACP States' own efforts, shall be integrated in the economic and social development plans and programmes of the said States so that projects undertaken with the financial support of the Community dovetail with the objectives and priorities set by those States.
2. At the beginning of the period covered by this Convention, Community aid shall be programmed, in conjunction with each recipient state, in such a way that the latter can obtain as clear an idea as possible of the aid, in particular as regards the amount and terms, it can expect during that period, and especially of specific objectives which this aid may meet. This programme shall be drawn up on the basis of proposals made by each ACP State, in which it has fixed its objectives and priorities. Projects or programmes already identified on an indicative basis may be the subject of a provisional timetable as regards preparation.
3. The Community indicative aid programme for each ACP State shall be drawn up by mutual agreement by the competent bodies of the Community and those of the ACP State concerned. It shall then be the subject of an exchange of views, at the beginning of the period covered by this Convention, between the representatives of the Community and those of the ACP State concerned.

This exchange of views shall enable the ACP State to set out its development policy and priorities.
4. The aid programmes shall be sufficiently flexible to enable account to be taken of changes occurring in the economic situation of the various ACP States, and any modifications of their initial priorities. Therefore, each programme may be reviewed whenever necessary during the period covered by this Convention.
5. These programmes shall not cover the exceptional aid referred to in Article 59 or the measures for stabilizing export earnings referred to in Title II.